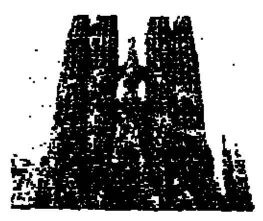
FINANCIAL TIMES



A slicker city

Barcelona teaches London a lesson

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World Business Newspaper MONDAY JUNE 12 1995 D8523A

Left weakened in first round of French local polls

The French political left had its hold on the country's town halls significantly weakened yesterday, according to provisional results from the first round of voting in municipal elections. The socialist, communist and other leftwing parties scored 43.4 per cent of the vote, sharply up from from the 38.5 per cent scored in last month's presidential election, but down from 47.8 per cent of support in the previous municipal elections in 1989. The country's rightwing parties dropped to 43.3 per cent compared with 44.6 per cent support six years ago.

Hopes fade for US-Japan trade peace: Trade officials from the US and Japan, meeting today to discuss the US threat to impose punitive tariffs on Japanese luxury car imports, appear to have little hope of a settlement. Page 6

Heath raises $50m for new group: Christopher Heath, founder of the Asian equities business which brought large profits to Barings bank in the 1980s and disaster earlier this year, has raised $50m to set up an investment group focusing on Latin America and Asia. Page 19

London Stock Exchange lags behind rivals: The London Stock Exchange, the world's third-largest stock market, is less efficient than the stock markets of Brazil, Thailand, Mexico and Turkey, a survey by leading consultants on share settlement shows. Page 8

Growth in Latin America could reach 6%: Latin American growth could accelerate to more than 6 per cent a year by 2000 if a set of fairly plausible conditions are met, a World Bank report says. Page 7

EU rice import rules likely to anger US: The European Union set its rules for rice imports after months of pressure from European rice millers, but the move is expected to open a trade dispute with Washington and lead to action at the World Trade Organisation. Page 6

Russia launches Chechen offensive: Russian troops launched a fresh offensive over the weekend against the mountain headquarters of Chechen rebels, in a move which Russian officials hope will mark the beginning of the end of the six month war in Chechnya. Page 3

German liberals elect Gerhardt: Germany's liberal Free Democrat party elected Wolfgang Gerhardt, 51, as its new leader in an effort to stem a string of electoral defeats. The FDP faces elections in Berlin in October. Page 2

EU tries to bridge aid rift: EU foreign ministers will today seek to settle a north-south dispute which threatens to block agreement on a complex foreign aid package involving the Mediterranean, eastern Europe and South Africa. Page 2

Profits soar at at VA Stahl: Austrian steel group VA Stahl reported an eight-fold surge in operating profit in the first quarter to Sch853m ($87m), brightening prospects for the group's privatisation planned for the autumn. Page 21

Managers weak on figures: Many senior British managers appear to have no idea what base rates are, how much their companies pay for accountants or secretaries, or what telephone calls cost, an NOP survey shows. Page 8

Blair backed on minimum pay: Tony Blair, leader of Britain's opposition Labour party, won support for a new strategy on minimum pay. Page 8

England beat Australia with a drop goal

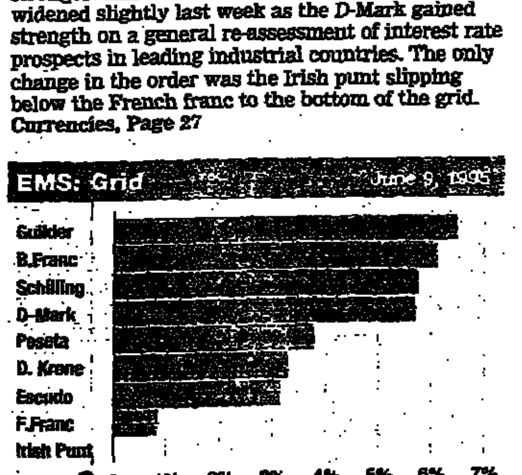
RUGBY WORLD CUP

Rob Andrew, the 32-year-old Wasps outside-half, guided England to a 25-22 victory over defending champions Australia in yesterday's quarter-final of the rugby world cup in Durban. Andrew clinched the memorable win with an injury-time drop goal, scored 20 of England's points, and then gave the credit to his team. New Zealand beat Scotland 48-30 in the other quarter-final in Pretoria. Page 4

Muster wins French Open: Thomas Muster became the first Austrian to win a Grand Slam tennis tournament when he defeated Michael Chang of the US 7-5, 6-2, 6-4 to take the French Open.

European Monetary System: The gap between strongest and weakest currencies in the EMS grid widened slightly last week as the D-Mark gained strength on a general re-assessment of interest rate prospects in leading industrial countries. The only change in the order was the Irish punt slipping below the French franc to the bottom of the grid. Currencies, Page 27

EMS: Grid June 9, 1995



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

Austria	Sch35	Greece	Dr400	Malta	Lm0.60	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr70	Hungary	Ft185	Neth	Fl 4.25	Singapore	S$4.30
Bulgaria	Lw110.00	Iceland	IKr220	Nigeria	Naira60	Slovak Rp	KSL60
Cyprus	C£1.10	India	Rs75	Norway	NKr18.00	S. Africa	R12.00
Czech Rp	CZK55	Israel	Shk7.90	Oman	OR1.50	Spain	Pta225
Denmark	DKr17	Italy	L3000	Pakistan	Rs40	Sweden	SKr17
Egypt	E£5.00	Japan	Y500	Philippines	Pes50	Switz	SFr3.60
Estonia	EKr 20	Jordan	JD1.50	Poland	Zl 42,000	Syria	S£50.00
Finland	FM15	Kuwait	Fils.625	Portugal (m'land)	Es230	Tunisia	Din1.500
France	FFr10.50	Lebanon	US$1.50			Turkey	L55,000
Germany	DM3.80	Lux	LFr70			UAE	Dh12.00

Board accepts raised offer of $64 a share ■ Executives to remain with company

IBM to take over Lotus for $3.5bn

By Louise Kehoe in San Francisco

International Business Machines yesterday won Lotus Development's agreement to a $3.5bn takeover, the largest ever computer software merger.

IBM will pay $64 a share in cash for Lotus, raising its terms from the $60 hostile bid it launched last week.

Mr Lou Gerstner, IBM chairman and chief executive, said: "Lotus will be a very critical part of IBM and of IBM's growth strategy". The personal computer software company is the leading supplier of "groupware", software that enables teams of people to work together via personal computer networks.

Lotus also sells a range of PC applications programs including its flagship Lotus 1-2-3 spreadsheet program, word processing programs and others.

Mr Jim Manzi, chairman and chief executive of Lotus, will stay on at the company as chief executive and will also become a senior vice-president of IBM.

He will report directly to Mr Gerstner. Other Lotus executives have also agreed to stay on with the company, Mr Manzi said.

"We are excited about being able to work with IBM and bringing the incredible resources of IBM – its marketing, selling financial resource – to bear on Lotus' business," Mr Manzi said.

Mr Gerstner said yesterday he had begun negotiations with Lotus last Tuesday and that the companies quickly determined they would be able to reach agreement.

The Lotus board met on Saturday and IBM's board met yesterday to approve the deal, the companies said.

The merger has been assigned to the Federal Trade Commission for antitrust approval. "We do not anticipate any antitrust problems with the deal," Mr Gerstner said.

"We are really delighted that we have been able to reach this agreement so rapidly. What it means is that we can begin moving ahead very rapidly to bring our shared vision of team computing and its many, many benefits to reality across our customer groups."

Lotus had 1994 sales of $971m and recorded a loss of $20.9m or 44 cents a share.

The company had previously announced plans to restructure its operations, and said yesterday it will move ahead with these cutbacks following completion of the merger.

IBM said it would take an unspecified charge against earnings in the quarter when the transaction is completed. This is not expected to be in the current quarter, which ends in three weeks, Mr Gerstner said.

Mr Manzi said: "In the process of the endless rounds of discussions over the past three or four days we have taken care of our employees, shareholders and most importantly our customers."

New lease of life, Page 10; Lex, Page 18; Microsoft may have met its match in fight over Windows, Page 18

Chirac wants to broaden EU co-operation with Britain

By David Buchan in Paris

President Jacques Chirac has signalled his desire to broaden co-operation with Britain in the European Union, while also taking the edge off Paris's differences with London over the planned single European currency.

After two hours of talks with Mr John Major, UK prime minister, in Paris on Saturday, France's new Gaullist president told a joint press conference at the Elysée palace: "I know and understand the British analysis and view of the single currency."

Mr Major said it was "a breath of fresh air" to discuss the implications of a partial future monetary union in a practical way.

Mr Chirac also signalled that he would set more store on relations with the UK than his predecessor, Mr François Mitterrand. While the Franco-German axis was "essential for Europe to move forward", he said, it was "necessary, but not sufficient."

"We will not build Europe without Britain," he said, and therefore it was essential "to understand the specific problems Britain faces".

In the context of next year's EU intergovernmental conference, Mr Chirac expressed the belief that "France can play a role to find the necessary energy and synergy between all [EU] states, and especially between France, Germany and Britain".

He underlined France's "common approach" with Britain to institutional reform, especially reinforcing the Council of Ministers and associating national parliaments more with EC decision making. Asked whether this common approach could extend to the issue of more majority voting in the EU – which the UK government opposes – Mr Chirac said: "I think you will find us in agreement." On all these issues, however, Germany takes a more federalist line.

On the single currency, Mr Chirac said the UK and France "are at least agreed that the consequences of a single currency between five, six or seven countries [of the EU] for the economic situation of the Union as a whole, and therefore for those countries that will not share the single currency, have not been sufficiently studied so far".

Mr Chirac's concerns appear to focus on exchange rate fluctuations between countries sharing a future common currency and countries, such as Britain, likely to be outside a monetary union. In hanging on to its parity with the D-Mark, France already feels particularly vulnerable in being surrounded on three sides by the UK, Spain and Italy with depreciating currencies and increasing export competitiveness.

After Mr Chirac's Elysée dinner for all 15 EU government heads, Mr Major reiterated the UK's commitment to following the Maastricht criteria "as sensible in any event", regardless of whether it were eventually to opt into a single currency. This has partly reassured the French that sterling may prove relatively stable and pose less of a threat to French trade than weaker currencies to the south.

Mr Chirac also said the EU summit in Cannes later this month – over which he will preside – would not discuss a name for the planned single currency, dashing the publicly expressed hopes of Mr Jacques Santer, the Commission president, for an early decision.

Mr Major hinted at an early UK concession to France over EU development aid, an issue which Mr Chirac described as "our only difficulty" in bilateral relations. In renewing money for the Lomé Convention, a trade and aid treaty, the French presidency is pressing for the 15-member Union to pledge at least as much money for African, Caribbean and Pacific states as it did when it had only 12 members. Britain has been resisting this. But Mr Major said: "I hope and expect we will reach an agreement before Cannes."

EU tries to bridge rift over foreign aid pay-outs, Page 2; Editorial Comment, Page 17

French president Jacques Chirac leaves Sarran in southern France yesterday after voting there in municipal elections Picture AP

Thatcher attacks UK government on single currency

By Robert Peston in London

Baroness Thatcher, Britain's former prime minister, will today launch a broadside attack on the ruling Conservative party's European Union policy, putting herself in the vanguard of Tories wanting a firm commitment that Britain will never join a single European currency.

In a BBC television interview to be broadcast tonight Lady Thatcher says: "I would say no single currency. This demeans Britain because we cease to have control either over the central bank or over our own currency." Her remarks will increase pressure on Mr John Major, the prime minister, to commit the Tories before the next general election against sterling ever joining a single currency.

The Eurosceptic cause received a separate boost over the weekend when Mr Michael Portillo, the employment secretary, said he did not want the UK to be in either the "slow lane" or the "fast lane" of the EU if the ultimate destination was a federal Europe.

Lady Thatcher says in tonight's programme that the European Commission is "busy trying to undermine" British sovereignty. She says: "It always seemed to me that Mr Kinnock [Neil Kinnock, former Labour leader, now an EU commissioner] . . . has more power as a commissioner than he had as leader of the opposition, or if we're not careful than anyone would ever have as prime minister".

She believes the the UK should remain part of a European free trade area but opt out of shared decision-making in other areas.

While Lady Thatcher says she opposes a challenge this autumn to Mr Major's leadership of the Tory party, she is scathing in her criticism of the direction of government under him.

On EU policy, the breakdown of relations with the US, defence cutbacks, law and order and "parliamentary traditions most of all", she says: "I didn't think we'd ever let those go to the extent that we are."

She also attacks Mr Major for signing the Maastricht treaty on closer co-operation between EU states, which set in train moves towards monetary union. "I would never have signed the Maastricht treaty", she says.

Lady Thatcher describes the objectives of the treaty – which she identifies as monetary union, a common defence policy and a common foreign policy – as "not right for the world . . . not right for Britain".

She also admits that opponents of the Single European Act, the blueprint of the single European market which she steered through parliament a decade ago, had right on their side.

Christopher ends Mideast tour with high peace hopes

By Julian Ozanne in Jerusalem

Mr Warren Christopher, US secretary of state, ended his Middle East tour yesterday saying he had more hope for a comprehensive end to the Arab-Israeli conflict than at any other time during his term in office.

Mr Christopher, who visited Israel, Egypt, Jordan and Palestinian-ruled Jericho, said his optimism was based on his firm belief that Israel and Syria were about to enter a "new and intensive phase" of negotiations and that Israel and the Palestinians were determined to meet a July 1 target date for extending Palestinian self-rule.

"I think that this trip has reinforced my feeling that there is a tremendous opportunity to move now toward a goal of a comprehensive peace, perhaps a better opportunity than at any other time during the 2½ years that I have been in office," Mr Christopher said in Amman before departing to Washington.

After talks in Damascus with Mr Hafez Assad, the Syrian president, Mr Christopher announced that the Israeli and Syrian chiefs of staff would meet in Washington later this month to discuss the security arrangements for an Israeli troop withdrawal from the occupied Golan Heights in return for full peace between the two countries.

Mr Christopher also said that his "very productive" talks with Mr Yitzhak Rabin, Israeli prime minister, and with Mr Assad had produced a detailed schedule for negotiations in July. "This detailed and ambitious work plan confirms the determination of the parties to seek an early peace," he said.

Mr Christopher, signalling Washington's eagerness to broker a peace agreement in the coming months, also said that President Bill Clinton would be prepared to travel to the Middle East to seal an Israeli-Syrian deal.

In another apparent sign of progress, Mr Christopher also said that Mr Assad understood the time pressures for reaching a peace agreement this year because of elections due in both countries in November next year.

Israel yesterday shared Mr Christopher's optimistic assessment of prospects for peace with Syria. Mr Rabin said he hoped the talks between the chiefs of staff in Washington would reach a breakthrough and said his government wanted a treaty which would mean "real peace, peace in the sense that every man in the street will know it is peace, if he wants to get up and travel to Syria . . . or open commercial or cultural ties, this will be possible".

As a sign of Israel's belief that peace was drawing near, officials said yesterday that Lieutenant General Amnon Shahak, Israeli chief of staff, would present the US with a detailed shopping list of military equipment needed to make a withdrawal from the Golan Heights safe. Officials said the list could cost up to $2.5bn.

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NEWS: EUROPE

EU tries to bridge deep rift over foreign aid pay-outs

By Lionel Barber in Brussels

EU foreign ministers will today seek to bridge a north-south rift which threatens to block agreement on a complex foreign aid package involving the Mediterranean, eastern Europe and South Africa.

France, Italy and Spain are leading the push for more money for the unstable North African region and former colonial outposts in Africa, the Caribbean and Pacific. Britain and Germany are calling for adequate funding for former communist central Europe and post-apartheid South Africa.

Unless ministers make progress today, the dispute may have to be resolved at the EU summit in Cannes on June 24-25. However, France, which holds the EU presidency, views Cannes as a showpiece for newly-elected President Chirac and is keen to avoid a demeaning battle over money.

The struggle over spending priorities in the foreign aid budget began in earnest last year. Germany agreed with France that the commitment to future EU membership for the eastern Europeans needed to be balanced by greater attention to the economies of the Middle East and North Africa.

The European Commission put forward a five-year funding plan which proposed about Ecu6.7bn (£5.52bn) for eastern Europe from 1995-99, and Ecu5.16n for the Mediterranean. But this plan has been roundly criticised for locking in too much money, leaving little for contingencies such as reconstruction in former Yugoslavia or humanitarian disasters like Rwanda.

France has therefore put forward a plan to set a minimum level of Ecu1.24bn on eastern Europe, and about Ecu700m for the Mediterranean. Each side would then bid for "top-ups" in the following years out of a much larger EU contingency fund.

Spain, however, is nervous that failure to put forward a multi-year budget for the south could jeopardise the Mediterranean summit in Barcelona later this year. Madrid has strengthened its case by dropping hints that it might seek to block an agreement on a mandate for the European Commission to negotiate a new trade and aid agreement with South Africa.

The present mandate offers a generous Ecu125m plus five tranches of Ecu100m over five years. Britain and Germany, however, would have preferred the EU to offer more far-reaching market access, particularly in agricultural products.

The South Africa matter is close to resolution, but it is complicated by the continuing impasse over the size of the European Development Fund, the EU's main aid programme for African, Caribbean, and Pacific countries.

France is seeking Ecu13.3bn over five years, an increase reflecting inflation and contributions from the three new EU members: Austria, Finland and Sweden. But only Ecu12bn has been pledged. Britain and Germany are the chief holdouts, though Mr John Major, UK prime minister, hinted at an early UK concession in talks with Mr Chirac on Saturday morning. Mr Chirac described the issue as "our only difficulty" in bilateral relations, but Mr Major said: "I hope and expect we will reach an agreement before Cannes."

The arguments over the EU budget foreshadow a big battle likely to commence in 1997-8 over the next EU financial outlook, once the present seven-year Delors II package runs out. Net contributors such as Britain, Germany, the Netherlands and Sweden are already taking a tough line. "Everyone agrees that is going to be hell," said one diplomat.

German liberals elect Gerhardt to lead FDP

By Judy Dempsey in Mainz

Germany's liberal Free Democrat party (FDP) elected Mr Wolfgang Gerhardt as its new leader at the weekend in an effort to stem a string of electoral defeats over the past 18 months.

Mr Gerhardt, 51, defeated Mr Jürgen Möllemann, the former economics minister, after winning 57 per cent of the vote from the 655 delegates.

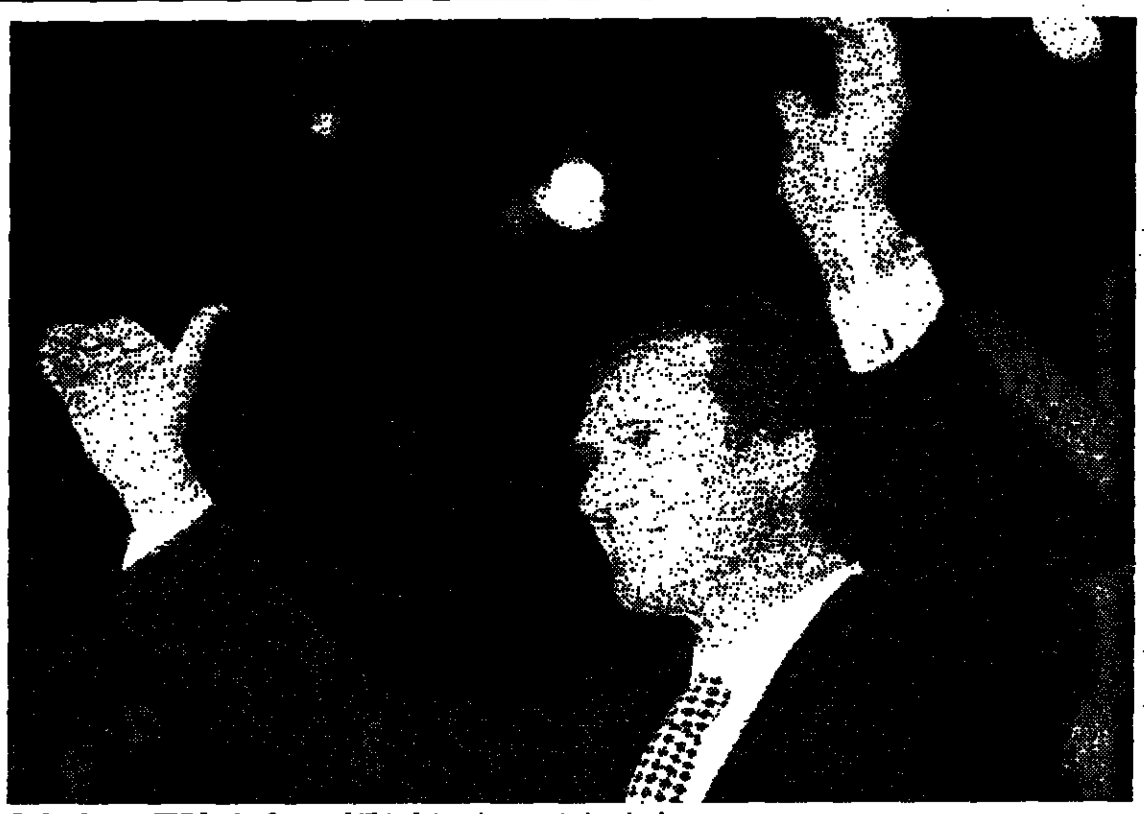
But Mr Gerhardt, FDP party leader in Hesse, one of the few remaining states in which the liberals are represented in the parliament, has less than five months to prove himself and reverse the party's fortunes. The FDP faces elections in Berlin in October, and next March in the states of Schleswig-Holstein, Rheinland-Palatinate and Baden-Württemberg.

If the party fails to get re-elected in these states, the chances of a split between the left wing of the party, led by Ms Sabine Leutheusser-Schnarrenberger, the justice minister, and the conservative national liberals, is likely to increase. A split would undermine Chancellor Helmut Kohl's governing coalition in which the FDP is the junior partner. The coalition enjoys only a 10-seat parliamentary majority.

Delegates hope Mr Gerhardt will sharpen the FDP's identity, pushing the parliamentary party to stand up to Mr Kohl on policy issues. But in spite of giving him their vote, many remain sceptical that he can pull the party out of the doldrums and erode the growing support for the environmentalist Greens, which in recent years have taken over many of the FDP's policies, including the defence of civil rights.

"Gerhardt is of the old school," said Ms Stephanie Luscher, 25, a delegate from Lower Saxony. "He will not be tough enough to force the FDP faction to stand up to Kohl."

Mr Gerhardt, a long-serving member of the FDP, has one advantage. Because he is not simultaneously leader and minister, unlike his predecessor, Mr Klaus Kinkel, the foreign minister, he will have a freer hand to shape FDP policy. But his ability to define more clearly the party – whose platform was originally achored on low taxation, less state interference, more de-regulation, and defence of individual rights – will remain weakened because the 47-strong FDP parliamentary faction, led by Mr Otto Solms, is committed to shoring up Mr Kohl's coalition, at any price, and Mr Hans-Dietrich Genscher, the former foreign minister, and Mr Otto Lambsdorff, both honorary (and influential) members of the FDP's executive board, continue to interfere by diluting the party's policies in the parliament in order to keep it in the coalition.



Gerhardt: new FDP leader faces uphill task to return party to winning ways EPA

Slovenia debt deal excludes suspect banks

By Gavin Gray in Zagreb and Stephen Fidler

A proposed debt agreement between leading international banks and Slovenia, the first bank debt settlement for a republic of former Yugoslavia, will explicitly exclude a number of financial institutions suspected of working for Serbia.

The list of the excluded institutions, said by bankers to number eight, will be sent to Yugoslav bank creditors next week and they will not be allowed to participate in the agreement. The list includes a French, a British and a Cypriot bank.

The Slovene government accuses the Serbs of keeping all the former Yugoslavia's foreign exchange and gold reserves and believes some of these have been used to buy back debt.

Under the proposed settlement, agreed on Friday, Slovenia will take on 18 per cent of Yugoslavia's total $4.65bn (£2.96bn) debt to western commercial banks. This will be swapped into bonds maturing in 2006 and carrying an interest rate of 13/16 percentage points over Libor.

The agreement, which must be approved by two-thirds of the western creditors, is expected to be signed in September. It follows two years of negotiations between Slovenia and a committee of creditors led by Chemical Bank of the US.

When negotiations began, western creditors asked Slovenia to take $1.2bn, or 28 per cent of the total debt, while Slovenian negotiators offered to take $500m.

The compromise means Slovenia, which has hard currency reserves of more than $3bn, will have a gross liability of $837.9m. However its net liability will be only $710m because it has already bought some of the debt in the secondary market.

At least some of the institutions that Slovenia wants excluded from the deal are said to have helped the Serbs in debt buy-backs.

The Slovenes drew up the list and it has been reviewed by an arbitrator. There is a right of appeal.

Also excluded from participating in the accord are banks and other entities from Serbia and Montenegro as defined by the Office of Foreign Asset Control in the US, which is operating an embargo against the Serbs.

Bankers were interpreting the agreement positively over the weekend, but were unsure whether the excluded banks would resort to law over the accord.

Slovenia has secured a debt rescheduling with the Paris Club of creditor governments. Bankers said the deal could lead to a similar accord with Croatia, which is also talking with commercial banks.

Eurostart quandary for Eurostar

By Andrew Jack in Paris

The small businessman who has won a ruling to force the French national railway company to stop using the name Eurostar for its Channel Tunnel service yesterday indicated that he had no intention of giving up his legal fight in the face of a possible appeal.

Mr Antoine Leprince-Ringuet, director of Eurostart, a Paris-based delivery and courier company with 35 staff and an annual turnover of FFr7m, (£890,000) said that the costs of continuing a battle in the courts did not concern him.

His comments came after a surprise ruling from a civil court in Paris on Friday that SNCF, the French state-owned national railway operator, must pay his business FFr1 in symbolic damages and cease using the name Eurostar within six months.

SNCF said it would study the written judgment from Ms Lydie Dissler, the magistrate, before deciding on an appeal.

The French company was created in 1986, and registered its name Eurostart in 1989. SNCF and the Belgian and British railway companies which jointly operate services through the tunnel have spent £5m promoting the name "Eurostar" since 1993.

Mr Leprince-Ringuet said he was not aware of any approach by SNCF to his company before it launched its marque, and he decided to launch legal action early last year after seeing mentions of the name Eurostar in the press. "I thought it was a case of imitation that had potential to create confusion." He said the legal action was an entirely *"franco-français"* affair because it hinged on the fact in French the two names sound identical.

Eurostar operators in London said because it used the tunnel, the French ruling could also affect its use of the name.

German tax raids bring fear and embarrassment

By Andrew Fisher in Frankfurt

When taxi drivers and hotel porters give advice about where to squirrel money away from the eyes of the taxman, the government has a problem. In Germany, high tax rates discourage citizens from declaring all their assets, so many of them open accounts abroad.

That in itself is not illegal. But those subject to tax must declare what they have. Since many are reluctant to do this, revenue officials search the offices of banks through which Germans, and those resident in the country, channel their money. Not only are they after individuals, but also those who may have advised them on tax evasion.

Last week, it was the turn of Merrill Lynch, the big US investment bank, to undergo this embarrassing process. Tax officials marched into the five German offices of Merrill which dispense private client advice and took documents they thought could help in their tax evasion probe.

Merrill says it has done nothing wrong. So do other banks which have had the same treatment, including Dresdner Bank in Frankfurt, Hypo Capital Management (HCM), an arm of Bayerische Hypotheken und Wechselbank in Munich, and Norddeutsche Landesbank in Hanover. Customers of Merrill Lynch received a letter telling them the tax people had been round and warning them to expect awkward questions.

One executive whose bank was searched by tax officials said he was told by a taxi driver about the best way to take money across the border to Luxembourg without being observed. "But he now keeps his money in Switzerland because he thinks Luxembourg is not safe enough any more." A colleague of the banker heard the night porter at his hotel also talking knowledgably about where to send money abroad away from prying eyes.

"It's so widespread, I'm surprised," the banker said. "There's a huge grey area." Tax experts reckon more than DM300bn (£134bn) has been salted away in tax refuges, mostly in Luxembourg but also in Switzerland, Austria and Liechtenstein. Germany has pushed for European tax harmonisation to plug the gaping holes through which it has lost an estimated DM20bn in tax over the past two years.

With the finance ministry watching from the sidelines – and insisting the campaign is not its brainchild – regional tax offices have adopted a scattergun approach. When they receive a tip-off, of which there are said to be more than 200,000 a year from envious or concerned citizens, they act.

"You can invest where you want to under German law," said a Frankfurt tax official. "But you have to say what money you have. It's obviously a sensitive point that so many people invest money in other countries where yields are not that high compared with Germany." In other words, people suspected of putting money where the taxman's arm does not reach can expect to be investigated.

Since the government does not want to provoke an outcry by making banks report all tax-eligible transactions, it relies on honesty. But at a time when German tax rates have shot up to help pay for unification, honesty cannot be taken for granted. So officials pay intimidating visits to banks.

No action has been taken against any banks but many nervous investors must wonder if the taxman will tap them on the shoulder soon. Munich's tax office reported around 100 spontaneous tax declarations after the raid – coming clean is obviously good for the nerves.

EUROPEAN PRESS REVIEW

Italians suffer from referendum grapeshot

ITALY

By Andrew Hill in Milan

The ink was scarcely dry on the ballot papers for yesterday's Italian referendums when, according to Il Giornale, the Milan daily, preparations were already under way for another wave of popular votes in 1997 or 1998.

The newspaper reported yesterday that Italy's Radical party was collecting signatures for a further 18 referendums on issues such as hunting rights, the state electricity monopoly and proposals to abolish the powerful Italian order of professional journalists.

It would be ironic if a referendum were to attack the rights and privileges of Italian journalists. Although referendums mean mainly nuisance and confusion for most Italian citizens, for journalists they are a boon.

As Mr Vittorio Feltri, editor of Il Giornale, put it in an editorial: "This has been really a great week, rich with thrilling events." Despite declining circulation and rising newsprint costs, newspapers devoted screeds to the referendum and its spin-off controversies.

Mr Feltri himself has been at the centre of attention, if only because his newspaper belongs to Mr Paolo Berlusconi, brother of Silvio, former prime minister and media magnate. Not surprisingly, Il Giornale has backed Mr Berlusconi and his allies on the right. Its headline yesterday was in line with most other newspapers – "Day of judgment for Berlusconi" – while alongside the editor urged Italians to vote No to a cut in his TV channels.

La Repubblica, staunch opponent of Mr Berlusconi and Il Giornale, was even blunter about the choice. It led its front page with a cartoon of Mr Berlusconi on TV pointing a gun to his head, while a viewer's hand wavered between the Si or No buttons on the TV remote-control unit.

Yesterday's vote may help resolve problems such as the future of commercial television, union rights and shop opening hours, but poll-weary Italians will be pleased to hear that at least two questions raised in last week's newspapers are too complex to be solved by a simple Si or No.

Is Antonio Di Pietro, the former anti-corruption magistrate, an idol with feet of clay, or the victim of a vicious smear campaign? More importantly, is Roberto Baggio – star player with Italy's top soccer club Juventus, and tragic hero of last year's defeated World Cup team – going to be transferred to Parma, AC Milan or Inter Milan?

Mr Di Pietro, who resigned from the team of anti-corruption magistrates last year, was rarely off the front pages last week, forced to defend himself against charges that he abused his public office by accepting loans from a Milan businessman accused of insurance fraud. Thursday's Corriere della Sera urged those who wished to judge Mr Di Pietro to rely, as he used to, "only on the facts". The problem is that in spite of the space devoted to "Il Caso Di Pietro", Italian newspapers have not yet untangled the facts from the spiral of accusations and counter-accusations.

Divining the future of Mr Baggio – known as "Codino", or Pigtail, for his distinctive hairstyle – is an even more complex task, judging from La Gazzetta dello Sport, Italy's top-selling newspaper.

On Saturday, the paper kindly summed up the possible trade-offs between players for confused readers. "There are three hypotheses: Baggio goes to Parma with Boksic (Asprilla goes, Lazio keeps Casiraghi); Baggio goes to Milan (Casiraghi to Lazio and Boksic to Parma); Baggio goes to Inter which gives up Bergkamp (Casiraghi goes to Milan and Parma trades Minotti and L12bn for Boksic)."

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NEWS: INTERNATIONAL

INTERNATIONAL NEWS DIGEST

Russians launch Chechnya attack

Russian forces launched a fresh offensive over the weekend against the mountain headquarters of Chechen rebels, in a move which Russian officials hope will mark the beginning of the end of the six-month war in Chechnya. However, Mr Dzhokhar Dudayev, leader of the Chechen separatists, remained defiant. "The next step is that Russia is to burn in hell," Mr Dudayev told Reuters in a telephone interview yesterday. "We have had enough of infanticide, blood being spilled on our land."

Earlier this week Mr Dudayev reportedly rejected proposals to launch a terrorist campaign within Russia, a policy which many military observers believe the extensive Chechen mafia network throughout Russia could be well placed to implement. But Mr Dudayev's strident comments yesterday suggest that, in the face of the new Russian offensive, his position may be hardening. On Saturday, Russia flew paratroopers into Chechen-held territory near the village of Shatoi. Shatoi, some 50km south of Grozny, the Chechen capital, has served as the headquarters of the Chechen resistance since the capture by Russian forces of Vedeno, a mountain strong-hold closer to the capital, last week. *Chrystia Freeland, Moscow*

Support sought for war apology

The Japanese coalition government today begins a last minute race to obtain opposition support for a parliamentary statement of remorse for Japan's war record. Mr Tomiichi Murayama, the socialist prime minister, is eager to get the upper house of parliament's accord for Japan's first national gesture of atonement for the war in time for the Group of Seven industrialised nations' summit, beginning in Halifax, Canada, on Thursday. However, the wartime apology has become entangled in an unrelated matter – an investigation into financial corruption – likely to compound Japan's neighbours' impression that the country remains divided over its wartime record.

While the more powerful lower house of parliament passed a painfully crafted statement of remorse late on Friday, exactly half its members stayed away, a mark of ambivalence over whether or not Japan's wartime record is a matter for apology. Upper house coalition members are to meet this morning. They are expected to call on the opposition to support the motion as it is. *William Dawkins, Tokyo*

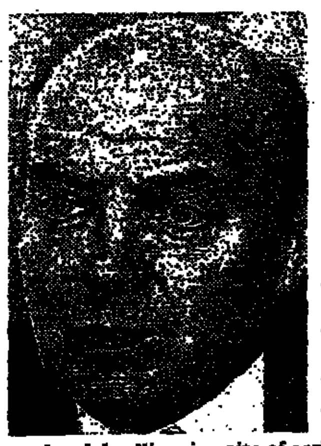
Employers seek EU rule halt

The European employers' federation will today call for a moratorium on new EU-wide and national regulations as the first step towards designing a more cost-effective and investor-friendly regime for businesses. European companies are being stifled by too many regulations which are too complex, change too frequently and set different standards, the Unice federation concludes in a draft study to be published today. Urgent action is necessary, it argues, as the problems facing small and medium-sized European companies particularly are set to increase. It calls for a halt to all new regulations so that governments at European, national and local level can take stock and develop alternative strategies. Unice's results are based on a survey of 2,100 companies, 80 per cent of which were small and medium-sized enterprises, across 14 countries. *Caroline Southey, Brussels*

Vesco probed as 'foreign agent'

Fugitive US financier Mr Robert Vesco, wanted in the US on embezzlement and cocaine smuggling charges, had been taken into custody in Havana and was being investigated as a suspected foreign agent, Cuba's foreign ministry said at the weekend. The US state department said on Friday it had been informed by Cuba of the arrest of Mr Vesco, who has been resident on the communist-ruled Caribbean island since 1982. The news touched off speculation that Havana might hand Mr Vesco to the US as a goodwill gesture to try to win a relaxation by Washington of a 33-year-old US trade embargo. The two countries do not have full diplomatic relations. Cuba's foreign ministry said Mr Vesco had been arrested "on suspicion of being a provocateur and agent of special foreign services". Charges against Mr Vesco in the US include the alleged embezzlement of $224m (£143m) from an international mutual fund in the early 1970s and a federal indictment for cocaine trafficking. *Pascal Fletcher, Havana*

Rift over Argentina patents law



The authority of Mr Domingo Cavallo, Argentina's embattled economy minister (*pictured left*), was further undermined at the weekend with the passage into law of patents legislation that Mr Cavallo says will damage the country's international reputation. The legislation on protection of intellectual property rights, which came into effect on Saturday, will be seen as a victory for Congress, which approved the bill last month. President Carlos Menem, who agreed that the bill provided inadequate protection, failed to act against it by the weekend deadline, in spite of earlier suggestions that he might declare the law unconstitutional. Mr Cavallo railed against Congress, which he said had caved in to the big money interests represented by the domestic pharmaceutical lobby. Legislation, as it now stands, will not cover pharmaceutical patents until 2003 because of an eight-year phase-in period. *David Pilling, Buenos* Aires

Emu 'endless litigation' fear

Bankers could be faced with "endless litigation" as a result of the move to European monetary union, according to a report published today. Uncertainty over the future status and interest rate payable on financial contracts denominated in existing European currencies could give rise to the legal action, says the report published by the London-based Centre for the Study of Financial Innovation. Its author, Mr Malcolm Levitt, says it "behoves the financial system to take a long hard look at what Emu means now – before irrevocable political and economic decisions have been taken".

Mr Levitt says litigation could occur for two main reasons. First, borrowers who have raised money in one currency at a high interest rate may argue that since their liabilities are now denominated in the new single currency they should only pay interest at the new lower interest rate. Second, lenders in relatively low-interest rate currencies may start to demand interest at the higher Ecu rate. *Economic and monetary union stage III: The issues for banks. CSFI, 18 Curzon Street, London W1Y 7AD. Tel: 0171 493 0173* *Richard Lapper*

Cathay takes action over flights

Cathay Pacific, the Hong Kong carrier, has begun court proceedings in Sydney in an attempt to prevent the Australian federal government from blocking its ability to fly to Australia after June 30. The legal move comes in the wake of a rumbling aviation row between the two countries about so-called "fifth freedom" traffic, carried by an airline between destinations outside its home country. After negotiations failed to resolve the dispute, the Hong Kong government said in April that it would restrict Qantas' fifth freedom rights to 50 per cent of traffic on its Hong Kong-Singapore and Hong Kong-Bangkok services from July 1. In retaliation, the Australian government said it would only approve services by Cathay to Australia until June 30. In its application to the Federal Court, Cathay claimed that Australia's transport department was not entitled to limit its operations after end-June, and that this was a misuse of government power by Australia. *Nikki Tait, Sydney*

HK law under Chinese law

Simon Holberton on the interface between Basic and common law

Hong Kong is a lot wiser, if no happier, about the way things will be after China reclaims the colony in 1997 following Friday's Sino-British deal on Hong Kong's legal system.

There is a growing realisation that the legal system after July 1, 1997 will be quite different from that now in operation. As Mr Martin Lee, chairman of the colony's Democratic party, pointed out the common law in Hong Kong after 1997 will a "common law with Chinese characteristics".

When Mr Chris Patten, governor, presented the Sino-British agreement on Hong Kong's court of final appeal to the Legislative Council (LegCo) on Friday, he chose his words carefully. Of the agreement, he said: "It offers the prospect of a court that will, subject to the Basic Law, have precisely the same function and jurisdiction as the Judicial Committee of the Privy Council."

The key phrase is "subject to the Basic Law". The Basic Law – a law passed by China's National People's Congress, or parliament, in April 1990 – empowers the Hong Kong Special Administrative Region, as the colony will be known after 1997, to conduct its own affairs within certain guidelines and limits.

The limitation placed on Hong Kong courts is the prohibition from hearing cases involving "acts of state". In common law, acts of state typically relate to the making of treaties with foreign countries, declarations of war, and the seizure of land or goods in right of conquest.

The Basic Law says the courts of Hong Kong "shall have no jurisdiction over acts of state such as defence and foreign affairs".

The use of the phrase "such as" alarms lawyers because it implies there are areas of state activity other than the traditional ones of defence and foreign affairs which may be embraced by the term. If that were not enough, Beijing has also taken away from Hong Kong's courts the power to determine what acts of state are.

In common law jurisdictions, the courts decide these on the basis of case law. But through the powers the deal gives Hong Kong's chief executive, as the post-colonial governor will be known, it will be his brief to direct the courts as to what constitute acts of state. A further layer of protection is afforded to Beijing by the requirement that the chief executive consult Beijing before issuing his direction to the courts.

Mr Jeremy Matthews, attorney general, was blunt when he pointed out the "inescapable facts" facing Hong Kong after 1997. These were that the Basic Law becomes law on July 1, 1997 and that it contains a definition of "acts of state".

"That is reality," he said. "It is not something that we have traded away. That is not something that we've given away. That is an inescapable fact that stares us in the face."

This underlines the fact that the Basic Law is a Chinese law, with only indirect involvement from Britain.

Britain's biggest failure in the talks was its inability to convince China to allow the court to be set up before 1997. In the draft of bill for the court, it was left to the governor to rule on "acts of state". Had Britain convinced China of the need to set up the court early then Mr Patten could have helped shape the interpretation of acts of state.

Probably for this very reason China did not agree to the court being set up early. From Beijing's point of view, it did not design a way of keeping Hong Kong's court system on a tight leash only to let Mr Patten – not their favourite governor – introduce some slack into the system just before the handover of sovereignty.

Hong Kong will be a region of China subordinate to the central government; so it follows that its courts could not have the powers of a Privy Council to rule on sovereign matters. This limitation will make for some interesting law in the first year or so of Hong Kong under Chinese rule. As Mr Matthews noted: "Pretty early on, the question that the courts will have to decide is the interface between the common law and the Basic Law."

That particular fault line could also produce eruptions of seismic proportions. Senior British officials are convinced that China is in the process of securing its hold over Hong Kong. During the late stages of the transition "I think their fundamental motivation is to get control over various institutions in Hong Kong," said one.

In achieving that aim, however, British officials believe the Beijing government might temper its actions in the light of experience. According to another British official, Beijing's attitude towards "acts of state" will depend on the political situation in Hong Kong at the time, the degree of confidence Beijing has in the chief executive, and the nature of the cases coming before the courts.

Stronger yuan worries China

By Tony Walker in Beijing

The strong appreciation of the Chinese yuan risks becoming a "double-edged sword", according to the official China Daily's Business Weekly newspaper, exposing a fractious debate within government and banking circles.

The paper yesterday quoted an unnamed government economist as calling for a relaxation on restrictions on imports as the best means of preventing a further rise in the yuan's value. "If imports are not to further increase, an even stronger yuan may well stifle export growth," the economist said.

China's credit squeeze, imposed in mid-1993 to calm an overheating economy, has slowed significantly demand for imports. "The quick export growth will be a double-edged sword if it fails to be handled properly", China Daily said.

The newspaper noted comments by another senior economist that "China will not seek a one-way trade surplus: we advocate a virtual balance between exports and imports." China's trade surplus reached $8.8bn (£5.6bn) at the end of April, reflecting a 53 per surge in exports compared with the same period last year. Import growth, meanwhile, was restricted to 14.5 per cent.

China's foreign exchange reserves have also risen sharply – from $51.6bn at the end of 1994 to about $60bn now. Reserves were $30.4bn in 1993.

The yuan, which was trading at about Yn8.30 to the dollar on Friday, has appreciated by about 5 per cent in the past year in spite of inflation running at more than 20 per cent. The yuan is not a convertible currency internationally, but is traded for US and Hong Kong dollars and yen on a local foreign exchange market.

Among concerns is that the yuan's appreciation, together with high rates of interest available on local currency deposits, is proving a magnet for speculative activity, including funds repatriated by Chinese corporations. These organisations had been holding big foreign exchange deposits outside China.

Officials of the People's Bank of China, the central bank, have complained about such inflows putting a strain on monetary targets. They have taken steps to curb flows of so-called "hot money", but this is not proving easy at a time when China is the recipient of billions of dollars of foreign direct investment.

Lagos cracks down on poll anniversary

By Paul Adams in Lagos

Today's second anniversary of Nigeria's annulled presidential election has prompted an uncompromising response from the army regime.

Opponents have been arrested and the military presence raised in Lagos and across southern Nigeria, traditionally sympathetic to the deposed and imprisoned winner of the poll, Mr Moshood Abiola.

The anniversary of the annulled election raises awkward questions about the ruling regime of Gen Sani Abacha and the continued arrest of Mr Abiola who was imprisoned on charges of treason after proclaiming himself president last June. His trial has been postponed indefinitely with no prospect of release despite Mr Abiola's poor health. Many of his supporters are also in jail or in exile.

Moshood Abiola: arrest raises awkward questions

Most opposition groups have denied planning any militant activity to mark the vote anniversary and say the crackdown by the authorities is unwarranted.

The regime faces another security threat following the May 30 riot in Gen Abacha's home town of Kano where dozens were killed in clashes between the Christian minority and the mainly Hausa Moslems.

The riot started with a row over a parking space between an Ibo, a southern Christian, and a Hausa, a northern Moslem. Local gangs of Moslem youths, began to attack Christians, who retaliated as fighting spread. Within hours three churches were burned out. "This has nothing to do with religion at all," says Mr Ibraheem Zakhzaky a pro-Iranian Moslem preacher with a strong following in nearby Zaria. "It is a social problem."

The Christian community is particularly worried about the apparent indifference of the Kano state authorities to the recent disorders.

"We called the state governor, his chief of police and state security services but they did not treat it seriously," said a spokesman for the Christian Association of Nigeria in Kano. "Eventually we telephoned the office of Gen Oladipo Diya, the number two in the military regime, in the capital Abuja. They had been told by the state authorities in Kano that it was a minor scuffle and was under control."

On orders from Abuja troops were deployed, army barracks gave refuge to thousands of Christians and by evening the riot had been quelled.

"Christians here are treated as second class citizens," said Father Joseph Bagobiri, a Catholic priest in Kano and a northerner.

The tension in the West African nation is compounded by the trial, which began last week, of 23 soldiers and civilians accused of plotting to topple the military government. A former military head of state, Mr Olusegun Obasanjo, and his former number two, Mr Shehu Yar'Adua, are also being held without specific charges. Their involvement in a coup is unlikely.

Privately, military officials believe they have little hard evidence against the suspects who include Col Lawan Gwadabe, formerly Gen Abacha's principal staff officer, and Col Bello Fadile, an intelligence officer who until recently was head of the army's legal service. The arrests are seen more as a sign that the regime fears dissent.

Last week Mr Adamu Ciroma, a conservative from the north with no loyalty to Mr Abiola, told the regime that the release of Mr Abiola is a pre-condition to removing the shadow of legitimacy the unexplained annulment of the 1993 election has cast over the army's claims to power.

Clinton to put case for isolating Iran

US president hopes to win over allies at G7 summit, writes Scheherazade Daneshkhu

US President Bill Clinton is hoping to gain support for the US trade embargo against Iran at the Group of Seven summit of the world's largest industrialised nations which meets in Halifax, Canada on Thursday.

The embargo, announced by Mr Clinton six week ago came into effect last week. On Friday Japan's foreign ministry struck a blow to Washington's policy when it said it could not easily restrict commercial activities between private companies and Iran.

However, Japan has frozen the second tranche of a Y120bn (£882.35m) loan for a dam and hydroelectric power station on Iran's Karun river in sympathy with the US position. Japan agreed to provide the credit in 1993 and the first tranche of Y38bn is being disbursed. The second tranche is worth Y50bn.

Mr Clinton said the embargo was in response to "Iran's continuing support for terrorism, including support for acts which undermine the Middle East peace process, as well as its intensified efforts to acquire weapons of mass destruction".

So far only Israel, which does not have trade or diplomatic relations with Iran, has fully endorsed the move.

Mr Clinton is expected in Halifax to try to persuade US allies to refrain from extending credit and long-term guarantees to Iran and to stop concessionary financing. He will also ask his allies to reduce or freeze their imports of oil from Iran.

Washington is particularly anxious that none of its allies should step into the empty shoes of Conoco, the oil subsidiary of DuPont, which under pressure from the administration relinquished a $1bn deal with Iran to invest in developing two offshore oil fields.

The deal triggered the trade embargo and Washington would not like to see companies such as Total, the French oil company which competed with Conoco for the contract, or Royal Dutch/Shell, the Anglo-Dutch oil company which is believed to have held talks with Iran, to co-operate with Tehran instead.

The US will want to secure more support at Halifax than in Moscow last month. Russian President Boris Yeltsin refused to abandon a $1bn sale of light water nuclear reactors to Iran, which Russia says resembles a reactor the Americans are selling to North Korea. He did, however, agree not to sell Tehran a gas centrifuge, which would produce enriched uranium.

China, which has an agreement to sell Iran two nuclear reactors, has defended the deal and last month signed a contract to treble its purchases of Iranian oil to $400m (£255m) a year.

Despite the bravado shown by Iranian officials, the US embargo has been a blow to Tehran. It has to find new buyers for $4bn of oil exports previously lifted by American oil companies while fending off the threat of other oil producing countries increasing their production.

Clinton: oil imports call

Last month Mr Gholamreza Agazadeh, Iran's oil minister, warned other big oil producers not to try to take away some of Tehran's share of the world oil markets.

The embargo also triggered a crisis of confidence in Iran which led to a rapid devaluation of the rial, the local currency. In an effort to stem the rial's fall, Tehran has imposed strict foreign exchange controls which include a requirement on exporters to repatriate all their foreign exchange earnings, with the result that private sector trading has come to a halt.

The lack of continuity in economic policy as the country lunges from one economic setback to another has been a deterrent to much-needed investment, both foreign and domestic.

Recent attempts by Iranian officials to distance themselves from the death sentence imposed by the late Ayatollah Khomeini on Mr Salman Rushdie, the British author, indicate that they are concerned about Iran's relative isolation.

Algerians rally in support of accord

By Roula Khalaf in Paris

Thousands of supporters of Algeria's main opposition parties, including the banned Islamic Salvation Front (FIS), gathered in Algiers late on Friday to support an accord for national reconciliation signed by the parties in Rome in January. The accord has been rejected by the army-backed Algerian government.

The meeting in the Harcha stadium in Algiers marked the first time opposition parties have sought to take their proposal directly to a population caught in a bloody conflict between security forces and armed Islamic groups. The civil strife, which erupted in 1992, has already cost more than 40,000 lives.

Although permission to hold the meeting was awarded by the government only three days earlier, some 8,000 to 10,000 people – as many as the stadium could accommodate – attended. They chanted slogans calling for an end to the violence and against the presidential elections planned for the end of this year.

The accord signed in Rome was the product of an agreement between the FIS and Algeria's main secular opposition parties including the National Liberation Front, the former ruling party and the Berber-based Socialist Forces Front. It committed the FIS to democratic principles and called for talks with the government leading to an end to violence and the establishment of a coalition government.

The agreement, however, was rejected by the government which has since last November stepped up its military campaign against Islamist groups.

Sharansky may lead new Israel party

By Julian Ozanne in Jerusalem

Israel's political parties have failed to use a unique opportunity to gather East European Jews into Israel and could face a new immigrant party vying for power at the next election in November 1996, according to Mr Natan Sharansky, the Russian Jewish dissident freed from Soviet detention in 1986.

He said Israel's 600,000 Russian Jews who immigrated in the last five years and fuelled economic growth averaging 5 per cent a year felt deeply betrayed by the two main political parties, Likud and Labour.

Recent polls show that at least 45-50 per cent of Russian are disillusioned with the political system and would vote for a new party. The polls also show Mr Sharansky is the overwhelming choice to lead such a party.

On a range of issues from economic liberalisation and democracy, housing and job creation to cultural pluralism, Russian Jews were demanding political change which might only be possible by entering politics, Mr Sharansky said.

The creation last week of a new immigrant political movement led by Mr Sharansky has caused unease among Israel's traditional political parties. The Labour-led government of Israeli prime minister Yitzhak Rabin won the last election largely because he gained at least half the Russian vote. With Russians now making up 11 per cent of Israel's 5.4m people and 14 per cent of the Jewish population, a political party supported by the majority of Russians could decide who takes power in 1996.

Since 1986 Mr Sharansky has avoided party political activity, concentrating instead on lobbying for increased immigration from the former Soviet Union, where up to 1.4m Jews still live. He now believes that the political establishment has become lethargic about immigration and is worried that increasing assimilation of Jews across the world will eliminate the opportunity to gather all Jews into Israel.

"With the collapse of communism we have had a unique opportunity in the history of Zionism to bring the remnants of East European Jewry to Israel," he said. "But there has been no strategy and no attention about how to do this. The government seems to be content to wait for more pogroms to force Jews to flee to Israel. What we need to do is to make Israel a much more attractive place, a centre for excellence and not a shelter from persecution."

Deep discontent among the Russian Jews already in Israel sent out negative signals to Jews thinking about immigrating, said Mr Sharansky. The Russian influx provided Israel with a sudden crop of highly educated engineers, scientists, computer and software analysts and technicians. But while about 80 per cent of Russian immigrants had found jobs, only 30 per cent were working in their professions.

The new party would be likely to focus on greater and faster economic liberalisation and privatisation of the large and inefficient public sector; better incentives for start-ups and small companies; housing reform including better loan facilities and the sale of the 92 per cent of the land owned by the state.

But Russian discontent is also about the conflict between a largely European culture with a Middle Eastern one. Mr Sharansky said Russian immigrants wanted to maintain their culture and their language and wanted reform of the education system.

RUGBY WORLD CUP

NZ 48, Scotland 30

Scots go down still battling

By Huw Richards

Scotland, the one British country to have emerged with credit from all three world cups, did themselves proud again as they were ejected from this year's competition by rampant New Zealand.

The right team won. But where Ireland and Wales left their fans embarrassed and frustrated by the manner of their departures, the Scots – and in particular the retiring Gavin Hastings – were rightly cheered off as heroes by the large and vocal following who had sustained them throughout a terrific contest.

In defeat they equalled the record score against New Zealand in their 92-year rugby history, and became the first British side ever to cross their line four times. Those records reflect enterprise, fire and imagination in the face of the irresistible firepower of the All Blacks. If they can overcome the loss of the talismanic Hastings, they can look forward to being a force in European rugby over the next few years.

Once again All Black winger Jonah Lomu – feelingly termed "a big bastard" by Hastings to post-match press conference laughter – inflicted massive damage, showing that he has speed as well as power, scoring one try and setting up another. And outside-half Andrew Mehrtens has not only the cool head and kicking skills of his predecessor Grant Fox, but much greater creative qualities and lethal pace, showed to devastating effect with a solo try.

The message that allowing this lot anything like parity up front means their backs will destroy you will not have been lost on England even amid the euphoria of their own victory.

Scotland indeed dominated much of the first half, driving the New Zealanders back and winning a series of penalties from referee Derek Bevan, whose display should make him hot favourite for the final. But, 17-9 down at the break, they were devastated by three tries in the next eight minutes – Little, Mehrtens and then Bunce going over.

Amid the deluge Doddie Weir drove over from a rolling maul – and repeated the trick late in the game as the Scots refused to lie down. Skipper Sean Fitzpatrick marked his 100th international with New Zealand's last try.

Scorers: New Zealand 48: Tries – Little (2), Lomu, Mehrtens, Bunce, Fitzpatrick; Conversions – Mehrtens (6); Penalties – Mehrtens (2). Scotland 30: Tries – Weir (2), Scott Hastings; Conversions – Gavin Hastings (3); Penalties – Gavin Hastings (3).

England gain their revenge

England 25, Australia 22

England won their quarter-final against Australia in the most dramatic fashion in Cape Town yesterday. Rob Andrew, who scored 20 of England's 25 points, landed a drop goal from 40 metres as the scoreboard showed that 42 minutes of the second half had been played and just after a loudspeaker announcement that "there may be extra time".

Andrew scored 20 of his team's 25 points and then gave the credit to his team: "I don't think anybody stood out," he said after England gained revenge for their 1991 world cup final loss to the Australians at Twickenham.

"It was just a superb all-round team display, absolutely unbelievable," he said. "When we were 13-3 up, to let them back into it was a bit disappointing. Some past England sides might have collapsed at that point, but we kept at it."

England started strongly. Apart from a smattering of empty seats Newlands might have been Twickenham on an autumn afternoon. Under overcast skies, England were greeted by a huge roar from a crowd dominated by their supporters. Only a little puff of dust as Rob Andrew kicked off indicated that, even after four days of rain, this was not an English field.

Michael Lynagh, the Australian captain and kicker, and Andrew exchanged early penalties. Andrew then put England ahead after a late tackle.

Heading England's way: NZ winger Jonah Lomu crashes through Scottish defenders yesterday Reuter

England penned Australia back with a series of up and unders and when Australia finally entered England's half their back moves, as against South Africa, looked laborious and over-rehearsed.

A try by Tony Underwood, who ran half the length of the pitch, was converted by Andrew, Lynagh pulling Australia back to 13-6 just before half time.

Andrew kicked another penalty but again Lynagh levelled. Australia's pack was gaining in strength, and on the hour, Lynagh, put Australia ahead after scrum-half Dewi Morris strayed offside.

At the drop-out flanker Tim Rodber was obstructed and Andrew made the score 19-19. Three minutes later England were penalised on their own 22, for killing the ball, and Lynagh again put Australia ahead.

England seemed spent. However, they summoned an attack and won the penalty from which Andrew made the score 22-22 and set up the nerve-wracking final five minutes.

Australia pressed. They won a scrum and seemed to have set up a drop goal but Tim Gavin, the No 8, drove instead. From the ruck the ball went not to Lynagh but to the wing, David Campese, who scuffed his kick.

England, and Andrew, made the most of the let-off.

Peter Berlin

A kiss for captain Will Carling from an 'old fart'

Victorious England captain Will Carling received a congratulatory dressing-room kiss on Sunday from the "old fart" who sacked him as England skipper last month, agencies report. Dennis Easby, president of the Rugby Football Union, was among the first to join the English celebrations at Newlands after the 25-22 win over world champions Australia.

"I saw the president with tears in his eyes and kissing the captain afterwards," said coach Jack Rowell. "We've got this on video, it's worth a fortune and I'm Victor (Ubogu)'s agent."

Carling was sacked then reinstated within 72 hours after referring to the RFU as "57 old farts" in a television documentary.

It was only the second win for England over Australia in their last eight meetings dating back to 1984.

Tedium 1, rugby 0 in French win

France 36, Ireland 12

In the last three months Terry Kingston's Irish XV have been implicated in three truly appalling matches – two against the hapless Welsh, who would currently have difficulty beating an egg, and a cracker against New Zealand. And it takes two to contrive a non-event on this scale, with the French at least as responsible.

This match was a terrific advertisement for rugby league – and not a bad one for the entertainment value of drying paint.

But then what should one expect of two teams who have opted for kicking efficiency over attacking flair in selecting their back divisions? The goal-kicking of Thierry Lacroix and Eric Elwood was precision itself, with 12 of 14 kicks hitting the target. But both sides were woefully deficient in enterprise or imagination.

France, with their immense resources and tradition of open attacking play, were arguably the guiltier party. Their intermittent flashes of style were far outweighed by those of indecision or conservatism. And when they did contrive promising positions they were hamstrung by the virulent dropgoalitis afflicting outside-half Christophe Deylaud, who failed with four.

But the French were still too strong all round for Ireland. The Irish displayed their normal virtues of competitiveness and defensive commitment, holding their own in the first half as penalty followed penalty. But the danger signals were there from the start. But Roumat dominated on the French put-in at lineouts and took advantage of Kingston's wayward throwing to poach a fair amount on Ireland's.

After the interval, Lacroix added two more penalties to equal the world record of eight held by Neil Jenkins and Gavin Hastings, but try-scoring efforts were epitomised by an abortive push-over attempt in which the French eight were ignominiously shunted back by Ireland.

The tries came late and undeserved – scorelessness would have suited this game. First French captain Philippe Saint-André crossed in the 78th minute after their umpteenth rolling maul, then Emile N'Tamack ran an effortless 80 yards with an interception for an injury-time score. Intended recipient of the pass was Ireland's absurdly neglected wing Simon Geoghegan.

Huw Richards

Controversy dogs South Africa

S Africa 42, W Samoa 14

South Africa faces an anxious few days before it can name its team to face France in the semi-finals, reports AP.

Injuries and controversies that have dogged the Springboks throughout the tournament continued on Saturday in a 42-14 victory over rugged Western Samoa at Ellis Park.

Good news came from flying wing Chester Williams, who set a national record with four tries in his world cup debut after missing the pool round of the tournament with a hamstring injury.

But several key players will undergo treatment and fitness tests before the side is named to face France in the semi-final Saturday in Durban.

Full-back André Joubert, who broke a bone in his left hand in the first half, is almost certainly out of contention.

Forwards Ruben Kruger, Mark Andrews and Kobus Wiese also were hurt during the game, while wing James Small continues to be troubled by a hamstring injury that forced him off the bench.

Flanker Kruger aggravated a longstanding shoulder injury, while lock Andrews suffered from chest pains and lock Wiese twisted a knee.

Added to the injury woes were allegations that scrum-half Joost van der Westhuizen made insulting remarks to Western Samoan players, and that Western Samoan captain Pat Lam was bitten during the game.

The accusations came just a week after the South Africans, were involved in a brawl during their 20-0 win over Canada that saw hooker James Dalton and wing Pieter Hendriks suspended.

Springbok captain François Pienaar and team manager Morné du Plessis denied any knowledge of slurs made against the Samoans and Pienaar said he was proud of his team's discipline.

Rugby World Cup directors on Sunday cited Western Samoan full-back Mike Umaga for dangerous tackling. A disciplinary hearing by match commissioner Sir Ewart Bell, also chairman of Rugby World Cup, will take place today.

SEMI-FINALS

Saturday, June 17
France v South Africa
(Durban) 1300

Sunday, June 18
NZ v England
(Cape Town) 1300

Algerians rally in support of accord

By Roula Khalaf in Paris

France 36, Ireland

Tedium! rugby French

NEWS: WORLD TRADE

Hopes fade for US-Japan cars peace

By Frances Williams in Geneva

Trade officials appear to have scant hope of progress towards a settlement of the US/Japan car trade dispute when the two sides meet today at the World Trade Organisation headquarters in Geneva.

The talks are being held at Japan's request and mark the first step in its formal WTO complaint against the US threat to impose punitive tariffs on $5.9bn-worth of Japanese luxury car imports.

The sanctions are due to be imposed on June 28, backdated to May 20, if Japan does not agree measures to boost domestic sales of US cars and car parts. Tokyo says the announcement is already damaging Japanese trade and represents a clear violation of WTO fair trade rules, a view that has almost universal support among trading partners.

However, Japanese officials in Geneva say they expect the US to spin out the process in order to exert maximum pressure on Tokyo to give way to US demands before the sanctions deadline.

The US has already proposed further talks in Washington on June 20, after President Bill Clinton's June 15 meeting with Mr Tomiichi Murayama, the Japanese prime minister, during the Group of Seven summit in Halifax, Nova Scotia. By then the US plans to have filed its own WTO complaint alleging discriminatory practices in Japan's market for cars and car parts.

In a US television interview on Saturday, Mr Mickey Kantor, the US trade representative, confirmed Washington's hard-line stance, and said: "We're not going to blink." He affirmed the sanctions would be imposed at the end of the month if there was no accord with Tokyo.

Washington has firmly rejected Japan's demand that the case be considered under the WTO's emergency procedures. Under normal procedures, Japan must wait 60 days from its consultation request of May 17 to ask the WTO for an independent panel inquiry.

The US is sending a relatively low-level team to today's talks, headed by a junior legal counsel in the US trade representative's office. Japan has despatched two senior officials from the foreign and trade ministries.

Australia, which has declared a third party interest, will also be taking part in the WTO consultations, which may continue tomorrow.

At the Paris air show, aircraft makers reaffirm their confidence in the industry's future

Airbus and Boeing slug it out

By Michael Skapinker in Paris

Non-stop flights from Europe to Australia and from the eastern US to Hong Kong will be possible within a few years, the world's two leading aircraft manufacturers said yesterday.

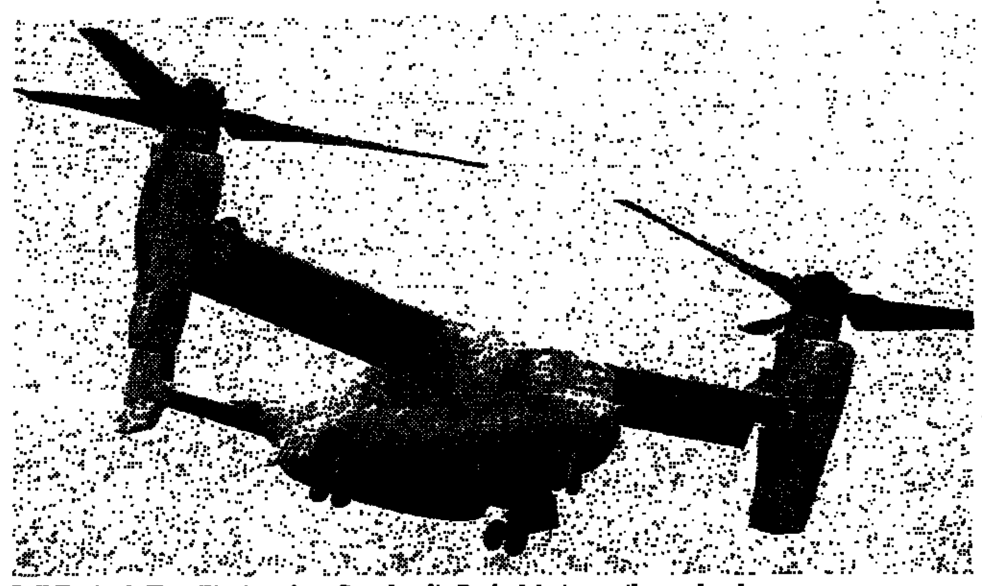
Airbus Industrie, the European consortium, said it would be the first to offer super long-range aircraft, with a model capable of flying 8,000 nautical miles ready to enter service in 1997. Boeing of the US said its aircraft would not be available until 1999 – but would fly 600 miles farther than the Airbus product.

The European consortium countered that it was also studying an aircraft which could fly all the way around the world, making only one stop. This meant that, wherever passengers were, they would be able to fly home without touching down anywhere else.

The battle between the two manufacturers to provide aircraft with ever longer range is part of an increasingly bitter struggle to dominate the market for passenger jets with up to 400 seats.

Boeing has just launched the 777 aircraft at an estimated cost of $5bn as a direct competitor to the Airbus A330 and A340 jets.

During separate briefings at the Paris air show yesterday, the two manufacturers spent much of their time disparaging one another's products. Boeing, which attracted fewer orders than Airbus last year, remains the world's leading manufacturer with about 60 per cent of aircraft sales over the past few years, compared with about 30 per cent for Airbus.



Bell/Boeing's V22 tilt-wing aircraft makes its Paris debut over the weekend EPA

Mr Jean Pierson, Airbus managing director, said yesterday he wanted to win 50 per cent of the market by the end of the decade. The consortium already claims to have the world's longest range aircraft, the A340-200, which can fly 7,450 nautical miles. Airbus' new proposed aircraft, the A340-8000, would be able to fly over 500 nautical miles farther. Airbus said that if airlines wanted the new 232 seat aircraft, it could be introduced in two years.

Boeing said its longest range aircraft would be the 777-100X, a version of the aircraft introduced this year but with a shorter fuselage.

The new aircraft, which will be available in May 1999, would carry 259 passengers, compared with about 300 in the 777 model just introduced, and would have a range of 8,600 nautical miles.

Boeing unveiled the first big deals at the nine-day show with orders worth some $564m from three European airlines for its new B737-800 passenger jet. European Airbus consortium is expected to announce two orders on Monday.

The commercial war between Europe and the US was highlighted when French President Jacques Chirac, officially opening the show on Saturday, called for greater European co-operation to defend its industrial base.

● The black B2 long-range US Air Force stealth bomber yesterday stole the spotlight at the Paris air show where it went on its first public display in Europe. The "Spirit of Missouri" B2 aircraft was built at a cost of $500m by Northrop Grumman.

Flying the flag for makers of civil aircraft

Michael Skapinker on a defiant McDonnell Douglas executive

If McDonnell Douglas was not a civil aircraft manufacturer it would now be looking for ways to become one, according to Mr Harry Stonecipher, the US group's chief executive. This is defiant talk from someone who only four months ago had to place full-page advertisements in the press denying his defence and aerospace company was planning to suspend production of its MD-11 aircraft.

Many in the airline industry feel it is only a matter of time before McDonnell Douglas withdraws from the civil aircraft business, leaving the field to its larger rivals – Boeing of the US and Airbus Industrie, the European consortium. At the Paris air show this weekend Mr Stonecipher insisted those who believed his group would abandon the civil aircraft industry were wrong. Like Boeing and Airbus, McDonnell Douglas feels the industry will grow strongly over the next 20 years.

All three manufacturers calculate that airlines will spend $1,000bn on new aircraft. McDonnell Douglas says that more stringent noise restrictions in North America will result in 4,800 new aircraft orders there.

In the Asia-Pacific region, a rapid increase in air traffic will lead to 4,000 aircraft deliveries over 20 years and the rest of the world will require 4,500 aircraft, according to their forecasts.

Boeing said last week, however, that airline expenditure on aircraft would remain relatively subdued until well into the next century. This was because airlines would repair their balance sheets before buying new aircraft.

Mr Stonecipher, who became McDonnell Douglas' chief executive in September, agreed that some airlines' finances would not permit them to place orders. Air France, for example, has postponed the delivery of Boeing and Airbus aircraft.

Mr Stonecipher said, however, that Air France's decision was the result of its financial difficulties rather than an assessment of future growth of air traffic.

He does not believe growth in aircraft orders will remain slow until the next decade. Historically, he said, the aircraft market had shown it could change suddenly. In the early 1990s, demand for aircraft was so high that airlines were buying positions on manufacturers' production lines.

"Then, six months later, those same airlines were seeking to delay their orders. It turned fast then and it will turn fast again."

The level of demand will be strong enough to support more than two manufacturers, he feels. A decade ago, he said, many Americans doubted their country could support three car manufacturers. They predicted Chrysler would go out of business, leaving General Motors and Ford to represent the US industry. Chrysler survived and prospered by cutting costs and improving quality.

Mr Stonecipher said McDonnell Douglas would do the same. Over three years the group has halved the time it takes to assemble its 155-seat MD-80 aircraft.

The group's drive to remain in civil aircraft manufacturing is expected to receive a boost over the next week when Saudia, the Saudi Arabian airline, announces a long-delayed order from Boeing and McDonnell Douglas.

Mr Stonecipher said: "We always let our customers announce the orders, but we are happy to see that this is apparently coming to a conclusion."

Europe's rice import rules likely to anger US

By James Harding

The European Union has finally set its rules for rice imports, but the move is expected to spark a trade dispute with Washington and action at the World Trade Organisation.

After months of pressure from European rice millers, the European Commission has agreed a new regime to protect Europe's industry. But officials privately acknowledged it was "eminently challengeable" under international trade laws.

Trade arrangements governing cereals and rice frequently threatened to jeopardise the seven-year talks on the General Agreement and Tariffs and Trade and were finally resolved in negotiations behind closed doors just before the deadline expired in December 1993.

Commission officials, charged with the task of putting detail on that agreement, say they have been trying to pick up the pieces ever since.

The dispute centres on how to impose a ceiling price on rice imports into Europe. Washington believes that duty can only be applied on a consignment-by-consignment basis, so that traders who have paid more for the commodity in the US pay a corresponding reduction in duty.

Brussels, however, has argued that such a system would encourage traders to claim they had paid more for their rice, and would hit rice tariff revenues.

As a result the Commission is to apply tariffs on the basis of reference prices, or quoted market price in the US, rather than consignments.

A US department of agriculture official said: "We have only called on the Europeans to live up to their Uruguay Round commitments, and that means running the system on a consignment by consignment basis." Brussels argued it had to change the application system if it was to defend its rice millers, ensure a revenue from rice tariffs, and avoid fraud.

It is also understood there is no special allowance for packaged rice, which is likely to prompt further disagreement. European producers had feared they would be undercut by US millers importing packaged rice under the white rice price ceiling, thereby using manufacturing costs to eradicate their obligation to pay duty.

US rice millers who were barred from the European market by prohibitive tariffs prior to the Uruguay Round deal have rejected any change to the agreement.

Rice demand in Europe has been growing quickly in recent years. While cereals consumption has levelled off, the market for rice has been growing at 5-10 per cent a year. In the UK alone the £150m market has been growing at more than 8 per cent a year.

Mr Rohit Samani, managing director of Tilda Rice, a leading UK rice miller, welcomed the Commission package, arguing that "the rules make for a much fairer, more transparent system". Consumer prices should drop, he said, encouraging further consumption, growth and larger purchases of rice.

Trip fuels speculation over Speaker's intentions

Gingrich close to denying presidential ambitions

By Jurek Martin, US Editor, in Washington

Congressman Newt Gingrich, the Speaker of the House of Representatives, yesterday came within an ace of denying he intended to run for the Republican presidential nomination next year.

Asked in a TV interview, hours before his afternoon "debate" in New Hampshire with President Bill Clinton, if it were possible to run for president and remain Speaker, he replied: "It would be extraordinarily hard - and I don't expect it to happen."

Mr Gingrich's tour of the state, which holds the first presidential primary next year, has led to a welter of speculation about his intentions. It has also produced a pack of public opinion polls suggesting he would be ill-advised to run.

An ABC poll yesterday found two-thirds believing he was "temperamentally unsuited" to be president and 59 per cent that "he does not represent the views of most Americans".

A Newsweek poll found Mr Clinton beating him 52-33 per cent in a two-way race. But the president trailed Senator Bob Dole, the majority leader, by 49-40 per cent in their hypothetical match-up.

Mr Gingrich was not surprised by these results. "I'm a very controversial Speaker," he said, "who is trying to lead a revolution." He thought his New Hampshire trip was merely a means of getting out his political message.

The general view was that the joint appearance with Mr Clinton should work to the Speaker's advantage, mostly on the grounds that the mere act of sharing a platform with the president gave him de facto equality, even if he did not in the end seek the presidency.

It was Mr Clinton, whose college graduation speech had been planned long before Mr Gingrich settled on his New Hampshire trip, who first, half-jokingly, suggested last Thursday that since they were in the same state at the same time they might just as well debate a few issues.

Mr Gingrich seized on the opportunity and his staff tried to persuade the White House to make the occasion more public and with a larger audience than the planned small session with about 200 local senior citizens. He even proposed the presence of a conservative moderator.

During negotiations which were described as "prickly", Mr Clinton's advisers insisted on preserving the venue and format. But, with both the White House press corps and Mr Gingrich's large travelling media retinue on hand, it was already guaranteed to have a high profile.

The president also apparently felt it would be "churlish" to withdraw his initial offer and was reported to be confident that the "town hall" format was one in which he had always excelled, notably in the 1992 campaign.

Yesterday morning Mr Leon Panetta, the White House chief of staff, said Mr Clinton expected to be able to draw effective comparisons between responsible budget-cutting and the sort of extreme alternatives with which the Speaker is associated, particularly on issues such as Medicare for the elderly, a prime concern for the New Hampshire audience.

House Speaker Newt Gingrich poses with a stuffed moose at a fundraising breakfast for Republicans in New Hampshire over the weekend Reuter

Growth rate in Latin America may top 6%

By Stephen Fidler

Growth in Latin America could accelerate to more than 6 per cent a year by the end of the century if a set of fairly plausible conditions are met, according to a World Bank report released today.

While Mexico's financial crisis has hurt prospects for growth in the region this year and next, no significant downturn was in prospect. By early 1996 most countries will see economic conditions starting to improve, the report says. The crisis has served as a "wake-up call" for the whole of Latin America and the Caribbean, making it clear that further policy actions were urgently needed, it said. The actions taken in the aftermath of the Mexican crisis had already improved prospects for acceleration of growth.

"We expect that if a set of plausible conditions are met, the region will grow on average, at rates in excess of 6 per cent per annum between 1998 and 2005," says the report, issued to coincide with a bank-sponsored conference on the region in Rio de Janeiro.

Elsewhere the report says a best case could see annual average growth for the region of 6.3 per cent between 1998 and 2003. However, to achieve this a series of further reforms, spotlighted by the Mexico crisis, need to be put in place, the bank argues.

"Raising domestic savings rates, encouraging private investment in infrastructure, reforming the labour codes and education systems, and deregulating and debureaucratising lower levels of government now top the list of reform priorities," it says.

The report offers what it calls fundamental lessons from the Mexican crisis. The current account of the balance of payments should not be allowed to get out of line. "Under most circumstances a sustainable deficit would rarely exceed 3 per cent of gross domestic product."

Excessive reliance should be avoided on short-term foreign capital which is very sensitive to changes in interest rates and to political events. Keeping speculative inflows under control and encouraging long-term capital, as Chile has done, makes sense, it says.

Improvements in productivity lie at the heart of economic growth, and depend critically on government efforts in education and infrastructure. There is an inherent danger in using fixed exchange rates to stabilise economies, because it tends to lead to exchange rate overvaluation and a loss in competitiveness.

Attention needs to be given not only to the size of a country's public debt but its term structure and currency denomination. "The accumulation of short-term maturity debt is a sign of underlying fiscal problems and inconsistent macroeconomic policies."

A strong state is a prerequisite for a robust economy and the report urges governments to concentrate on building powerful institutions – legal systems, regulatory agencies and so forth – that help promote competition, protect the consumer and provide clear rules. Waiting for the benefits of economic growth to trickle down to the poor is not enough and needs to be reinforced by government policy.

In its assessments of the main Latin economies, the report is particularly critical of Venezuelan economic policies. Of all the main Latin American economies, Venezuela "is the only one in which the fiscal situation is out of hand. The fiscal deficit is almost 9 per cent of GDP." A dramatic contraction in private investment, a generalised banking crisis, capital controls, high inflation and an exchange rate estimate to be overvalued by 17-25 per cent all contribute to poor short-term prospects.

**Latin America After Mexico: Quickening the Pace. By Shahid Javed Burki and Sebastian Edwards. World Bank, Washington DC.*

Halifax puts on its best face for the G7 summit

Bernard Simon reports the Canadian city is using the opportunity to seek inward investment

Halifax, Nova Scotia, will this week briefly revel in the international attention that it last enjoyed half a century ago when troops and supply convoys set sail from its harbour to reinforce the Allied war effort in Europe.

Leaders of the Group of Seven industrial nations, joined by Russia's President Boris Yeltsin, are due to gather in eastern Canada's commercial and shipping centre for their annual summit for three days from Thursday.

Like other cities which have hosted G7 summits over the past 20 years, Halifax is sparing no effort to put on its best face for the estimated 5,100 delegates, journalists and observers who are expected.

Construction crews have been repairing roads, painting street lamps and putting a fresh coat of asphalt on parking lots near "Summit Place", the newly renamed waterfront office building where the leaders will meet.

A security fence will seal off about one square kilometre of the downtown area around Summit Place, forcing several dozen businesses to close for up to a week before the meeting.

The crush of visitors is likely to stretch facilities to the limit. Hotels within a 100km radius of Halifax have been asked to give priority to summit bookings. About 1,600 local residents have signed up for summit volunteer jobs, such as ushering and preparing media kits.

But Halifax's spring-cleaning has stopped short of the top-to-toe facelift put on by Naples, last year's G7 host. The city council and Nova Scotia's provincial government pondered, but then rejected as too extravagant, a C$1m ($725,000) plan to extend into deeper water the pipes which spew millions of litres of raw sewage into the harbour right in front of the summit site.

Nevertheless, local government and business leaders see the G7 gathering as a heaven-sent opportunity to put Nova Scotia's name on the map again. While Naples' clean-up was directed primarily at boosting the tourist trade, this year's hosts also hope to propagate a welcoming message to investors.

Mr Don Mills, former president of the Halifax chamber of commerce, describes the summit as "an opportunity to display the fact that we're not a quaint little fishing village, but quite a sophisticated province".

Nova Scotia's economy has up to now depended heavily on government activity and financial and other services. Michelin, the French tyre maker, and Volvo, the Swedish car manufacturer, are among a handful of foreign companies with manufacturing plants.

But the province is pinning its hopes for the future on high technology enterprises. The advantages for these businesses of a highly skilled workforce, an easy going lifestyle and market-oriented government policies could, so the argument goes, outweigh the drawbacks of being located in a relatively isolated corner of North America.

Dr John Savage, a family doctor who emigrated to Canada from Wales 28 years ago and is now the province's premier, says that Nova Scotia has "a happy combination of being fairly small and fairly big". The entire province's population is less than 1m, of whom almost a third live in Halifax. But no fewer than seven universities are located in the Halifax area.

Nova Scotia has a pleasant, relaxed ambience, marred only by winter storms. Its conservatism is reflected in Nova Scotians' unflinching affection for the British royal family. The Union Jack was flying in the grounds of the provincial legislature last month in celebration of "Royalty Week".

Among the few ripples which disturb the province's social and political tranquility are periodic protests by members of the black community around Halifax, many of whom are descendants of Empire loyalists who fled the US after the British-American war of 1812.

The effort being put into tourism and investment promotion during the summit easily matches preparations for the meeting itself. Indeed, many of the planned "summit" activities would be more suited to a trade convention or amusement park, than to discussions on reform of the International Monetary Fund or the US-Japan auto dispute.

An exhibition of trade and investment opportunities, named Summit Odyssey, will be set up around the Grand Parade and the restored Historic Properties shopping area in central Halifax.

Organisers are crossing fingers that these events and the summit itself will persuade the outside world that Nova Scotia has come a long way since the days of the troopships, without losing its charm or hospitality.

End in sight for executive share options

By Robert Peston, Political Editor

The Greenbury Committee on company directors' remuneration is planning to sound the death-knell on executive share options by recommending that companies replace them with other long-term incentive schemes.

The disclosure came as Mr Jeremy Hanley, the Conservative party chairman, called on directors of big companies – *especially the* privatised utilities – to exercise "more self control" and refrain from cashing in share options before Greenbury's *report is* published in mid-July.

Mr Hanley, speaking on the BBC, said: "Ahead of the Greenbury *committee, some* self-denying ordinance would be desirable".

In the strongest criticism to *date by a government* minister of utility directors, he said: "I think the way in which the options have been cashed has been inconvenient to the argument of the success of privatisation."

Mr Gordon Brown, the oppo*sition* "shadow" chancellor, said: "Executive share options as a reward for performance have become discredited. They *are no longer* the appropriate way to reward performance".

The Greenbury Committee, established with government backing to review corporate remuneration practices, will urge companies to adopt long-term incentive schemes which link directors' pay more closely to the performance of their companies, in place of traditional executive share options. In its report to be published in mid-July, the committee will not recommend that executive options should be outlawed. However its members – led by Marks and Spencer chairman, Sir Richard Greenbury – expect most big companies to follow its advice.

It will say that any company coming to the stock market intent on granting such options should not do so until about a year after flotation.

Such a delay would allow the floated company's share price to reflect its long-term prospects and minimise the likelihood that directors would earn substantial "windfall" profits from their options.

There has been widespread disquiet that directors of utility companies in particular were given options during a flotation at prices well below the prices justified by the companies' longer-term prospects.

The committee will provide a figleaf to *Mr John Major*, the prime minister, to make good his promise to legislate on executive pay. It will say that although its recommendations to increase disclosure of directors' pay in annual reports can be implemented through changes to the Stock Exchange's rules, company law should be amended to make it consistent with these new exchange rules.

Companies will be urged to ensure that their non-executives are independent.

London SE lags behind rivals on settlements

By Norma Cohen, in London

The London Stock Exchange, the world's third-largest stock market, has become a less efficient place to deal in shares than the stock markets of Brazil, Thailand, Mexico and Turkey, according to one of the world's leading consultants on share settlement.

The data shows a sharp rise in the percentage of share deals completed late since the London market adopted a tighter settlement timetable last year, and raises questions about the market's ability to cope with an even shorter settlement schedule starting this month.

Share trades that fail to be settled – share certificates delivered to buyers and payment delivered to sellers – on time are expensive for market participants, which have to borrow share certificates or money to cover the gap.

The data from US-based Global Securities Consulting Service and UK-based Lee Schwartz Associates show a marked decline in the efficiency of the London market. This has occurred since the exchange last July abandoned its traditional settlement at the end of fixed two- or three-week account periods – and moved to rolling settlement 10 days after each deal.

The change has left London, where 12 per cent of global equity trading by value takes place, trailing well behind other leading securities markets such as New York, Tokyo and Frankfurt, and operating at a lower level than several emerging markets.

At the start of the second quarter of 1994, before the exchange abandoned rolling settlement, 95.27 per cent of trades settled on time. One year later, that had fallen to 84.97 per cent.

After June 26, all shares will have to settle five days after each bargain is struck.

According to GSCS, London now has the most inefficient share settlement system of any important world stock market when factors such as the proportion of trades *failing to* settle on time, the length of time for which they remain unsettled, the average size of trades and local interest rates are taken into account. These factors are used to compute a "benchmark" of settlement efficiency, which allows comparisons across markets.

GSCS data is compiled quarterly from a survey of the world's 10 biggest global custodians, international banks which hold investors' securities in safekeeping.

At the start of the second quarter of 1995, London's "benchmark" score, at 76.92 per cent, was the lowest of any leading market.

Damage from two nights of rioting in Bradford, in the north of England, could run into hundreds of thousands of pounds. During the weekend, police were bombarded with petrol bombs, dozens of windows were smashed, cars were burnt and a garage partially destroyed in rioting by 400 youths. Senior police last night blamed a generation gap in the Asian community for the disturbances.

Building materials trade gap widens

By Andrew Taylor, Construction Correspondent

British exports of building materials surged ahead by 14.1 per cent last year to a record £3.02bn ($4.74bn) as producers took advantage of a weak pound and stronger demand from continental European construction industries.

However, this was more than offset by a big rise in timber prices and Britain's trade deficit on building materials widened by 22 per cent to £1.74bn.

According to the Department of the Environment, the deficit on wood and timber products rose by 18.6 per cent to £1.55bn. This represented almost 90 per cent of the total building materials trade imbalance.

Construction products and materials accounted for 16 per cent of the UK's combined trade deficit last year of £10.53bn.

Prices of lower grade structural timber, mostly spruce, rose by 40 per cent between 1992 and the end of last year but have since slipped by 10 per cent to 15 per cent following an upsurge in exports from Baltic states.

Lower wood prices should help reduce the trade deficit in building materials which, before last year's increase, had reduced by £1.1bn since it reached £2.49bn in 1990. Since 1990, exports have increased by more than £800m to £3.02bn last year.

Imports over the same period have risen by just £66m to £4.76bn.

Better at beer than base rates

By Diane Summers, Marketing Correspondent

Many of Britain's senior managers have no idea what base rates are, how much their companies pay for accountants or secretaries, or what phone calls cost, but they can be relied on to get the price of a pint of lager right.

Three-quarters of managers questioned by NOP, the survey organisation, had no idea that base rates were 6.75 per cent, with some guessing as high as 25 per cent or as low as 0.4 per cent.

While a temporary secretary costs between £6 and £12 an hour, nearly a third of managers guessed outside this range, with estimates between £2.50 and £50 an hour. Nearly half also failed to guess the true cost, between £104 and £184 a day, of hiring an accountant, said NOP.

The survey of 600 company directors, owners and managers, was conducted for British Telecommunications after Oftel, the telecoms regulator, last month found that domestic phone users thought they were paying up to three times more for their calls than was actually the case.

Nine out of 10 managers knew that a pint of lager in a pub costs £1.30-£2 and nearly half knew that the Sun newspaper's price is 23p.

Female managers appeared to be no better at knowing prices than men.

UK NEWS DIGEST

Policy forum backs Blair on minimum pay

Mr Tony Blair, the Labour leader, won the support of his party's policy forum yesterday for a new strategy on minimum pay.

The policy forum agreed there should be no exact pay formula setting a target figure before the next general election. Instead, it called on the next Labour government to *establish an independent low-pay commission of employer* and union representatives to propose a minimum pay figure, depending on economic circumstances.

However Unison, Britain's largest public-sector union, at its *conference* this week will back the introduction of a statutory national minimum wage of £4.15 an hour. Last week the executive of the TGWU general union said it would submit a resolution for this autumn's Labour conference in support of the £4.15 pay target, which is half the male median earnings.

Labour leaders believe the unions are in danger of isolating themselves over the issue just as they did earlier this year when they both opposed changing the party's constitution on Clause 4 over common ownership. They believe most trade unions will rally behind them. *Robert Taylor.*

Directors working 'too widely'

Some UK board directors have so many non-executive directorships that it may be impossible for them to fulfil their duties to each of the companies which pay them, according to research from Pensions Investment Research Consultants.

PIRC, which advises *institutional* investors on *corporate* governance matters, has identified 12 directors of the top 250 UK companies who hold four or more non-executive directorships. Moreover, PIRC's research shows, some multiple directorships *are held by individuals with full-time executive positions* in a FTSE-100 company.

PIRC estimates that the average non-executive director needs about 20 days per year to fulfill his responsibilities. "According to PIRC's research, however, there are numerous directors who would be unable to devote this amount of time," PIRC said in its latest newsletter. *Norma Cohen.*

Recovery may be looking up

The UK's economic recovery may have peaked a year ago but after three successive quarters of decline it could now be levelling out or even turning up again, a survey of small businesses indicates.

The tentative conclusion from the first 1,200 of a series of 6,000 interviews being conducted by the Forum of Private Business, a Cheshire-based lobby group representing 23,000 privately owned businesses in the UK.

The forum is one of the more respected small business associations. It interviews a quarter of its membership every quarter, so that each is seen once a year. Interviewers record the past 12 months' turnover, so actual trends in sales can be plotted accurately.

Food poisoning: Some 7 per cent of UK adults believe they suffered from food poisoning in the past year against only 3 per cent a year earlier, according to an annual survey on food safety. An underlying increase in food poisoning reported to health authorities appeared to be exacerbated by a growing tendency of people to blame stomach upsets on food rather than illnesses such as gastric flu, according to the Food and Drink Federation. *Roderick Oram*

THE WEEK AHEAD

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Computer People, The Meridien Hotel, Piccadilly, W., 10.00
Greenacre, The Swan Diplomat, Streatley on Thames, Berkshire, 10.30
Mowlem (John), Cavendish Conference Centre, 18-20, Duchess Mews, W., 12.00
Kelt Energy, College Hill Associates, 29, Gresham Street, E.C., 10.30
NB Smaller Co's Tst, Saltire Court, 20, Castle Terrace, Edinburgh, 12.30
Trinity Hldgs, The Allesley Hotel, Coventry, 11.00

BOARD MEETINGS:
Finals:
Acal
Bakyrchik Gold
Capital Gearing Tst
Chamberlain Phipps
Christian Salvesen
Ensor Hldgs
Eurodollar (Hldgs)
Field Grp
Portsmouth & Sunderland
Renold
Tex Hldgs
Umeco
Unigate
Whitecroft
Interims:
Berkford
Burndene Inv
Coda Grp
Kleeneze Hldgs
New Zealand Inv Tst

■ TOMORROW
COMPANY MEETINGS:
Barlows, Chester Grosvenor Hotel, Chester, 12.00
Brixton Estate, 22-24, Ely Place, E.C., 12.00
Cordiant, The Queen Elizabeth II Conference Centre, Westminster, S.W., 11.00
Dencora, Waveney Hotel, Beccles, Suffolk, 12.00
EFG, 23, Great Winchester Street, E.C., 11.00
Paramba, 4, Chiswell Street, E.C., 12.00
Specialeyes, 14, Lyon Way, Greenford, Middlesex, 2.00
Templeton Latin America Inv Tst, Butchers' Hall, Bartholomew Close, E.C., 11.00
Wensum, 10, Newhall Street, Birmingham, 11.30

BOARD MEETINGS:
Finals:
Aztec Grp
Bertam Hldgs
British Land Co
British Thornton Hldgs
Elliot (B.)
Great Portland Estates
Guardian Media Grp
Hadleigh Inds Grp
Heath (C.E.)
IWP Intl
Marshalls
Marston Thompson & Evershed
Mountview Estates
Northern Foods
Oceana Consolidated
Quiligotti
Rowe Evans Inv
Severn Trent
Shoprite Grp
Volex Grp
Interims:
Grainger Tst
Throgmorton Pref Inc

■ WEDNESDAY JUNE 14
COMPANY MEETINGS:
Blaichi Mining, 8-10, New Fetter Lane, E.C., 12.00
Body Shop Intl, Watersmead, Littlehampton, West Sussex, 11.00
Cl Grp, Novotel, Union Street, Wolverhampton, 10.30
Holt (Joseph), The Roebuck Hotel, 2, Church Road, Flixton, Manchester, 12.00
River & Mercantile Grd Cap & Inc Tst, New Connaught Rooms, Great Queen Street, W.C., 11.00
Shiloh, Holden Fold, Royton, 11.30
TransTec, The Royal National Hotel, Bedford Way, Russell Square, W.C., 11.00
Walker (JO), Humberstone Road, Bedford Way, W.C., 11.00

BOARD MEETINGS:
Finals:
Amberley Grp
Baring Emer Europe
Bradford Property Tst
Bristol Water Hldgs
Hill Hire
FKI
Mansfield Brewery
Rainford Grp
Scottish Hydro-Electric
Stirling Grp
UK Land
West Tst
Interims:
Goldsborough Healthcare
London Scottish Bank
Second Cons Tst

■ THURSDAY JUNE 15
COMPANY MEETINGS:
Antofagasta Hldgs, Institute of Chartered Accountants, Moorgate Place, E.C., 11.00
Campbell & Armstrong, Britannia Hotel, Dalston Lane, Stockport, 10.00
City of Oxford Inv Tst, 41, Tower Hill, E.C., 12.00
El Oro Mining & Expltn, 41, Cheval Place, S.W., 11.30
Exploration Co, 41, Cheval Place, S.W., 11.15
Huntleigh Technology, The Institute of Directors, 116, Pall Mall, S.W., 10.30
Securities Tst of Scotland, Saltire Court, 20, Castle Terrace, Edinburgh, 12.30
Wakebourne, Hoare Govett Finance, 4, Broadgate, E.C., 10.00

BOARD MEETINGS:
Finals:
CML Microsystems
Hartstone Grp
London Merchant Securities
Moorgate Sm Cos
Regalian Properties
Scapa Grp
Smith New Court
Sth Wales Electricity
Southern Water
Sutcliffe, Speakman
Tinsley Robor
Interims:
Alders
Alvis
Brooke Tool (Eng) Hldgs
Denby Grp
Eurocopy
Neotronics Tech
RCO Hldgs

■ FRIDAY JUNE 16
COMPANY MEETINGS:
Dewhirst Grp, Merchant Taylor's Hall, Aldwark, York, 12.00
Helical Bar, The Mayfair Hotel, Stratton Street, W., 11.30

BOARD MEETINGS:
Finals:
Cambridge Water
Dart Grp
Latham (James)
Interims:
David Lloyd Leisure

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Beckman (A) 1p
Bentalls 1.55p
Bett Brothers 1.75p
Chevron $0.4025
Computer People 2p
E.I. Du Pont De Nemours 7½% Nts '99 $75.0
Eaton Fin 12⅞% Un Ln '14 £6.25
Exchequer 12% '13/17 £6
Fuji Bank Intl Fin Sb FRN $18571.53
General Electric Cap 10% Nts June 10 '96 C$100
Grace (WR) $0.35
Hapoalim Intl FRN '01 $357.05
Hickson Intl 2.15p
Honeywell $0.25
Japan Dev Bank 9½% Nts '97 $475.0
Kobe Steel 4.7% Bd '98 Y470000.0
Kubota FRN '97 Y65722.0
Lilly (Eli) $0.645
Magnolia Grp 0.1p
Mitsui 4.30% Bd '97 Y430000.0
Do 4.60% Bd '98 Y460000.0
Mobil $0.925
Monsanto $0.69
Municipality Fin 9½% Nts '97 £95.0
Nichii 5.5% Bd '98 Y550000.0
Nippon Santo 7.2% Bd '98 Y720000.0
P & O 17p
Royal Insurance Hldgs 7¼% Sb Bd '07 £181.25
Sabre Intl (No.2) Ser N VR Secd Nts '98 Y65604.0
Do Ser O VR Secd Nts '96 Y70826.0
Sapporo Breweries FRN '97 Y631944.0
Spirax-Sarco Eng 8p
Sumitomo Bank Cap Mkts F/FxdRN '03 $35629.07
Sumitomo Heavy Industries FRN '98 Y68215
Takugin Intl (Asia) F/FxdRN '02 $3687.50
Toyota Motor 6⅞% Bd '97 $68.75

■ TOMORROW
British Empire Securities and General Tst 0.25p
Cemas 2.5p
Chime Communications 0.8p
English China Clays 10.9p
General Motors $0.015
Limited Inc $0.10
Lloyds Bank Prim Cap Un FRN $380.21
Pearson 10½% Bd 08 £105.0
Saker's Fin and Inv 5.5% Prf R0.055
Sumitomo Realty & Development 7.2% Nts '95 Y720000.0
Tenneco $0.40
Wankie Colliery Z$0.125

■ WEDNESDAY JUNE 14
BankAmerica $0.46
Bank of Ireland Un FR Prim Cap Nts $167.71
Chase Manhattan FR Sb Nts '09 $164.51
Commerzbank Overseas Fin FRN '98 $4486.81
Conversion 9½% '02 £4.75
DSL Bank FRN '98 $4486.81
Hong Kong and Shanghai Banking Prim Cap Un FRN (2nd Ser) $83.06
Inspec Grp 2.67
Ladbroke Grp 5⅛% Sb Conv Bd '04 £51.25
Manpower $0.06
NEC 7.1% Bd '96 Y710000.0
OGC Intl 3.9125p
Rugby FRN Dec 10 '97 $16847.50
Tongaat-Hulett Grp R0.70

■ THURSDAY JUNE 15
Abbey National Treasury Services 9⅝% Bd '04 L481250.0
AECI 5.5% Prf R0.055
Antofagasta Hldgs 3.55
Atlantic Richfield $1.375
Blenheim Grp 6.4% prf 3.2p
Bradford & Bingley Bldg Scty FRN '95 £171.71
British Airways 10⅞% Bd '08 £108.75
Brunswick $0.125
Caisse Nationale des Autoroutes 16% Ln '06 £400.0
Canadian General Inv $0.225
CarnaudMetalbox FFr4.40
CSX $0.44
Dairy Farm Intl Hldgs $0.0435
Dana $0.23
Dover $0.26
East Rand Gold and Uranium R0.60
Fairey Grp 4.75p
Forte FRN '99 £1649.45
Free State Consolidated Gold Mines R1.45
GKN $0.2667
Grand Metropolitan Inv 7% Nts June 15 '99 $70
Hongkong Land Hldgs (Bermuda) $0.08
Do (Jersey) $0.08
Investors Cap Tst 5¼% £1.8375
Jardine Matheson Hldgs (Bermuda) $0.172
Do (Jersey) $0.172
Kobe Steel 5.1% Bd 2000 Y510000.0
Louisiana Land and Exploration Cap $0.06
Mandarin Oriental Intl (Bermuda) $0.0395
Do (Jersey) $0.0395
Midland Bank Dlr Prf Shs Ser A1 $0.355
Do Non-Vtg Dlr Prf Shs Ser A2 $0.06875
Do Un FRN Cap Nts (Ser 3) $355.78
Pacer Systems $0.035
Pandick Press Intl Fin 7% Conv Sb Bd '98 $35.0
Pennzoil $0.75
Pfizer $0.52
Proudfoot 2p
Richards Grp 1.25p
River & Mercantile Geared Cap and Inc Tst '99 3.325p
Royal Bank of Canada FR Db '85 $166.11
Do Un FR Prim Cap Nts $360.21
St. Lawrence and Ottawa Railway 4% 1st Mort Bd £1.0
Sanwa Australia Fin F/FxdRN '04 $1740.97
Sapporo Breweries FRN '99 Y14156.0
Sara Lee UK Hldgs 9.43% Bd '04 £19383.89
Shiloh 2.75p
South Africa (Republic of) 9⅝% Nts Dec 15 '99 $48.125
Tenneco 10¾% Nts '90/95 $107.50
Thomson $0.125
Time Warner $0.09
Toyo Construction FRN '98 $38463.19
Trinova $0.18
TRW $0.50
Wagon Industrial Hldgs PartG Prf 3.625p
Weir Grp 4.9p
Whirlpool $0.34

■ FRIDAY JUNE 16
Abbott Mead Vickers 5.15p
African Lakes 0.5p
American Intl Grp $0.115
Aspen Communications 3.2p
Carr's Milling Industries 2p
Chepstow Racecourse 5p
Crean (James) Units IR8.25p
Elys (Wimbledon) 16p
Foreign & Colonial Pacific Inv Ist 1.55p
Govett Strategic Inv Tst 2.65p
Guangdong Development $0.038
Hampden Grp 1p
Holt (Joseph) 41p
Ladbroke Grp $0.0711
Lasmo 9½% Nts '99 £950.0
Leeds Permanent Bldg Scty FRN '98 £170.92
Lloyds Bank Ser C VR Sb Nts '98 £173.60
London and Manchester 11.56p
Lowland Investment 3.5p
N.T.S. Steel Groups Public 4% Bd '08
Oliver Grp 1p
Rossmont 0.2p
Santander Financial Issuances Sb UN VRN $4472.22
Scotland Intl Fin 14¼% Fxd/FRN '96 $36.65
Southeast Banking FR Sb Nts '98 $360.21
Sumitomo Chemical FRN '97 Y61013.0
VTR 1.6p
Wigmore Property Inv Tst 0.25p

■ SATURDAY JUNE 17
Densitron Intl 1p

■ SUNDAY JUNE 18
Templeton Latin America Inv Tst 0.52p

CONFERENCES & EXHIBITIONS

JUNE 11-12
Understanding Company Reports and Accounts
2 Days
An in-depth review of the interpretation and evaluation of Limited Company Accounts. Covers Assets, Liabilities, Provisions and Contingencies, Share and Loan Capital, Reserves, Mergers and Acquisitions, Turnover, Profits, Taxation, Dividends and Earnings per share.
£395+ V.A.T.
Contact: FAIRPLACE
Tel: +44 (0) 171 329 0595
Fax: +44 (0) 171 329 3853
LONDON

JUNE 15
Data Warehousing - the Business Benefits
A half-day seminar, addressing the issue of accessing and analysing data to ensure you, as a business manager, are able to exploit the full potential of your organisation's most important asset. Including real-life, proven case studies and featuring Sean Kelly, author of *Data Warehousing - the route to mass customisation.*
Contact: Margaret Ryan, SAS Institute
Tel: 01628 486 933 Fax: 01628 483 203
LONDON

JUNE 19-20
Selling Skills for Private Bankers
2 Days
Developing and maintaining profitable banking relationships. Needs identification, selling skills, negotiating and closing the sale, customer care.
£395+ V.A.T.
Contact: FAIRPLACE
Tel: +44 (0) 171 329 0595
Fax: +44 (0) 171 329 3853
LONDON

JUNE 20
Re-Engineering Workshops: Business Process Re-Engineering
Organisations achieve their goals through a relatively small number of processes. This workshop explores how to identify and create processes that add value instead of delay and cost.
Contact: Vicki Welham
World Class International Ltd
Tel: 01 705 268133 Fax: 01 705 268160
LONDON

JUNE 20 & 21
Introduction to Derivatives in Treasury risk management
Training course covering treasury derivative markets. Currency Options, SAFEs, FRAs, Futures, Interest rate swaps and related products. For Corporate Treasurers, bank dealers and marketing executives, financial controllers systems and support personnel. £520 + VAT.
Lywood David International Ltd
Tel: 01959 565820 Fax: 01959 5655821
LONDON

JUNE 20-22
RoSPA Health & Safety Exhibition & Congress
Europe's largest annual Health & Safety Exhibition, now in its 13th successful year. Will provide vital information on health and safety legislation as well as products and services which will enable companies to operate in a safe and healthy environment.
Exhibition Enquiries: Hazel Kirby - Exhibition Manager, Centre Exhibitions
Tel: 0121 767 2665
BIRMINGHAM

JUNE 21
Fabian Business Seminar: Employment Policies for the Year 2000
Speakers include: Harriet Harman MP, Ian McCartney MP, Kevin Barron MP, Bryan Rigby (CBI), David Lea (TUC), Robert Johnston (Mercury Communications) and Harry Dunleavy (Rover Group). Details and booking:
Tel: 0171 222 1280 Fax: 0171 222 1278
LONDON

JUNE 21
Interviewing for Lending
The time available for gaining and evaluating information from customers is at a premium, and many losses and disputes could be avoided by skilful interviewing. A better understanding of customer needs can also enhance the fees and margins earned.
- Key skills - Questioning, Listening, Summarising
- Needs Identification and Analysis, Negotiating

£245. 1 Day.
Contact: Fairplace
Tel: 0171 329 0595 Fax: 0171 329 3853
LONDON

JUNE 22
Trade Finance: Pitfalls, Procedures and Practice
An intensive one-day conference that introduces the new ICC Uniform Rules for Collection and Bank-to-Bank Reimbursements, and focuses on issues such as UCP 500 one year on and fraud in documentary credit transactions. Chaired by John Turnbull, Swiss Bank Corporation.
Contact: Interforum Services Limited
Tel: 44 (0) 171 386 9322
Fax: 44 (0 171 381 8914
LONDON

JUNE 22-23
Cashflow Analysis
Understand cashflows, their structure and analysis. Including Source and Application of Funds, types of Cashflow Statements, Debt Servicing Capacity. Practical Examples and Case Studies. £395 + VAT.
Contact: Fairplace
Tel: 44 (0) 171 329 0595
Fax: 44 (0 171 329 3853
LONDON

JUNE 23
Investor Relations - Brave New World
The 1995 Investor Relations Society Conference looks at the interaction between companies and investors in the 21st century. Dissemination of information via the Internet and the opportunities created by the global availability of $12 trillion for equity investment are amongst the topics that will be examined. Speakers include the Tom Peters Group, Bank of England, McKinsey, RSA and Microsoft.
Contact Sue Pavey.
Tel: 0171 405 4767 Fax: 0171 405 4768
LONDON

JUNE 26
Government Procurement Strategy - Analysing the White Paper
The Government Procurement Strategy white paper is the vehicle for the most radical change to public procurement seen this decade. Public and private sector speakers assess its impact and the implementation of best practice procurement.
Contact: Government Group, 0171-582 9191
LONDON

JUNE 26
Money Laundering - The Law, Responsibilities and Procedures
The Criminal Justice Act has placed new duties and responsibilities on individuals, banks and other financial institutions. This one-day course will address Definition, Identification, Regulation, Responsibilities and the Role of Supervisory Bodies with Practical Examples. £225 1 Day.
Contact: Fairplace
Tel: 0171 329 0595 Fax: 0171 329 3853.
LONDON

JUNE 27
The Power of Innovation
Powerful strategies for creating competitive advantage from the world's foremost innovators. Keynote speaker: Rt. Hon. Michael Heseltine, MP, President of the Board of Trade. A distinguished panel of world class innovation specialists including Microsoft, 3M and Eastman Kodak with additional input from the Europe Japan Centre.
Contact: Elaine Jackson, HDL Conferences
Tel: 0171 379 7383 Fax: 0171 240 8018
LONDON

JUNE 27 & 28
Selling skills for Treasury staff
Practical training course introducing selling techniques to banks' and financial institutions' corporate dealers and customer services personnel. At the end of the course participants will be better placed to identify and understand their customers' needs and handle selling opportunities with confidence. £520 + VAT.
Lywood David International Ltd
Tel: 01959 565820 Fax: 01959 565821
LONDON

JUNE 28
EU Automobile Industry Conference
The New Group Exemption for Selective Distribution for Motor Vehicles; The Role of the Independent; Information Exchange; Spare Parts Procurement for Third Parties; State Aids; Type Approval Harmonisation. CPD Accredited.
Contact: ESC
Tel: 0171 386 9322 Fax: 0171 381 8914
LONDON

JUNE 29
Team based working and BPR
The BPR Study Group (over 300 members) hosts an interactive one day session reviewing the most effective means of delivering radical change. How do you create a motivated team culture? How do you maintain it? UK and European case studies.
Contact: Steve Towers, Hanson Associates
Tel: +44 (0) 941 120118 (Eurodigital)
Fax: +44 (0) 121 711 7099
Institute of Directors, LONDON

JUNE 29
Procuring Finance for Business Growth FSU/Eastern Europe
This unique international conference looks at the latest developments in: • Portfolio and Equity Markets • ShareCapital, Loan Capital and Venture Capital • Project Financing and Prospects • FSU Economic Review. Eminent speakers include: Salomon Brothers, MeesPierson Euramerica, AIG/BEA Capital Management, Narodny Bank, Menatep Bank, IFC. Sponsors Rinacoplus, Ernst & Young.
Contact: Fowzia Rajput, BCI Ltd
Tel: +44 (0) 171 573 5077
Fax: +44 (0) 171 405 4957
LONDON

JUNE 30
Offshore Trusts, Companies and Partnerships - The International Dimension
A one-day conference for both practitioners and clients that focuses on trusts and companies for Anglo-Saxon and Continental clients; employee, tax and pension benefits; asset protection; controlled foreign companies.
Contact: Jeanne Bester, European Study Conferences Tel: 44 (0) 171 386 9322
Fax: 44 (0) 171 381 8914
LONDON

JULY 3-6
Credit Evaluation and Lending - Senior Level
3 Days
An intensive and highly practical review of sophisticated credit evaluation and lending techniques for experienced bankers.
£725+ V.A.T.
Contact: FAIRPLACE
Tel: +44 (0) 171 329 0595
Fax: +44 (0) 171 329 3853
LONDON

JULY 3-6
The Eleventh International Conference and Exhibition on Liquefied Natural Gas
Register now to take part in the world's premier forum for discussion of LNG matters. Being staged for the first time in the UK, this conference will bring together 1,500 purchasers and decision makers from all areas of this rapidly growing and increasingly important sector of the energy industry.
The Event Organisation Company
Tel: +44 171 228 8034 Fax: +44 171 924 1790
BIRMINGHAM

JULY 3 - 7
Networking Computing and Telecommunications Convergence Series
In this series of seminars and workshops telecomms specialists, industry analysts and end user organisations focus on the applications and futures of ATM, ISDN, Network Management, Open Systems and Computer Telephone Integration technologies.
Contact: UNICOM Seminars Limited: 01895 256484 Fax: 01895 813095.
LONDON

JULY 4-5
The IBC Banking and Securities Compliance Forum 1995
Timely update from three perspectives: Legal and Regulatory; Current Concerns and Internal Control and Risk Management. Including; capital adequacy; SFA and Central Bank; managing risks and rewards; risk analysis; asset management and controlling overseas offices.
CDP 10 hours.
Contact Phillippa Hartnall, IBC
Tel: 0171 637 4383 Fax: 0171 631 3214
LONDON

JULY 6
Buying and Selling Unquoted Companies
Tax aspects of Acquisitions; Presale/Flotation Capital Gains Tax Planning; Capital Gains Tax Reliefs; Extracting Value from Unquoted Companies; Innovative Tax Shelters; Inheritance Tax Planning. CPD 5 hours, CPE 16 points.
Contact: ESC
Tel: 0171 386 9322 Fax: 0171 381 8914
LONDON

JULY 6 & 7
Customer Retention
Determines the causes of higher net worth and corporate customer loss and how they can be eliminated. Identifies profitable approaches. Develop your own customer retention action plan. 2 Days. £395 + VAT.
Contact: Fairplace
Tel: +44 (0) 171 329 0595
Fax: 44 (0) 171 329 3853
CITY OF LONDON

JULY 6 & 7
Interactive Newspapers Europe
Europe's first conference for on-line and interactive newspaper publishing will present speakers from the USA, Europe and the Far East. The Internet and other on-line media are changing the nature of newspapers and the pioneers of electronic publishing will describe their initial experiences. A private expo and social agenda are provided for delegates.
Contact: Hammond Conferences
Tel: 0044-(0)181 943 9700
Fax: 0044-(0)181 943 9997
eMail: news@hammconf.demon.co.uk
LONDON

JULY 7
Company Reorganisations
Transfer of a Trade Between Companies; Depreciatory Transactions; Dividend Stripping; Value Shifting; Reconstructions - Splitting a Business under Ss136 and 139 TCGA 1992. CPD 5 hours, CPE 16 points.
Contact: ESC
Tel: 0171 386 9322 Fax: 0171 381 8914
LONDON

JULY 7
Mentoring Ahead - A Managing Best Practice conference
The value of making available the advice and guidance of positive role modes is increasingly recognised. Now a vital mainstream activity, Mentoring is being applied in all kinds of organisations with very positive results for both the individual and the organisation. Hear from: MARKS & SPENCER, BT, ROVER GROUP, LONDON BOROUGH OF LEWISHAM.
Contact: Susan Morgan at The Industrial Society.
Tel 0171 839 4300, Fax 0171 839 3898
LONDON

JULY 7-9
Marketing for High Technology Companies
A weekend course exploring the practical aspects of marketing for High Technology Companies. Looking at real life case studies and examples of best practice the course is aimed specifically at the practical aspect of marketing. Course is relevant to delegates form marketing or technical functions. Taught by marketing professionals, with many years experience in Marketing High Technology.
Contact: Cambridge Marketing College.
Tel 01223 421903 Fax: 01223 421767
CAMBRIDGE

JULY 10-12
Information Systems Solutions Series
Information Systems Solutions are going through rapid evolution. Leading specialists, VARS, end users, IBM, ICL and others present products, services, strategies and experiences. DATA MINING, COMMERCIAL PARALLEL PROCESSING, EIS, OLAP and new Database developments are discussed.
Contact: UNICOM Seminars Limited
Tel: 01895 256484 Fax: 01895 813095
LONDON

JULY 11
The Finance Act 1995 - A Practical Application of the Latest Legislation
Introduction and General Taxation Points; Changes to APR and BPR; VAT; Profit Related Pay and Share Schemes; Investment Relief Changes; Self -Assessment. CPE 18 points.
Contact: ESC
Tel: 0171 386 9322 Fax: 0171 381 8914
LONDON

JULY 13
Marketing Scenarios for the Millennium
How will you approach your clients over the next few years? W ill you have taken into account all the external influences - the economy, the 'feel good factor', a new government etc? These questions and more will be tackled at our forthcoming conference.
Cost: £375 + VAT
Contact: Anna Harman at
The Henley Centre Tel: 0171 353 9961
HENLEY CENTRE

JULY 17-18
Lateral Thinking and Serious Creativity for Management. Created by Edward De Bono
Presented by: Caspar de Bono, Chuck Dymer. Learn to: • Break loose from established thinking patterns • Generate fresh concepts • Keep up with changes • Be more creative at the strategic level.
Contact: Juliet Macheuje, Monadnock
Tel: 0181-871 2546 Fax: 0181-871 3866
LONDON

JULY 18-19
Interactive Marketing & Customer Loyalty
Interactive media offers opportunities to develop new and engaging relationships with customers. Speakers drawn from agencies and companies review the impact new electronic media are having on traditional marketing processes with experts from commerce and industry appraising core supporting technology, implementation and management of customer loyalty.
Contact: UNICOM Seminars Limited
Tel: 01895 256484 Fax: 01895 813095
LONDON

JULY 25
Telephone Communication Skills
An interactive course for anyone dealing with customers over the telephone, covering areas such as handling complaints, controlling calls and asking for information. An opportunity to develop your skills in a non-threatening environment. £245 + VAT inclusive of lunch, refreshments, course material.
Contact: STRUCTURED TRAINING
Tel: 01926 337621
LONDON

JULY 26
Creative Telephone Techniques
An ideal course for experienced telephone salespeople who wish to develop their existing skills and maximise their potential with advanced techniques that really work. £245 + VAT inclusive of lunch, refreshments, course material.
Contact: STRUCTURED TRAINING
Tel: 01926 337621
LONDON

AUGUST 6 - 11
SUMMER SCHOOL. Banking & Finance: Designs for the Future.
5 - day residential - for an International audience of high flyers and senior executives. Director of School - Eric Glover, Secretary - General Chartered Institute of Bankers 1982 - 1994 with Professor David Llewellyn, Loughborough University. Speakers include: Andrew Buxton, Chairman, Barclays, Sir Brian Pitman, Chief Executive, Lloyds, Professor Joe Norton, SMU, Dallas and Tom Frost, Formerly National Westminster
Contact: Fairplace
Telephone: +44 (0) 171 329 0595
Fax: +44 (0) 171 329 3853.
CAMBRIDGE

SEPTEMBER 13
The Listing Rules - Are You Up To Date? The Yellow Book and Retailed Statute
A practical one-day seminar focusing on sponsorship, directors' responsibilities, preparing applications for listing, acquisitions. Speakers include Nigel Atkinson, London Stock Exchange, Clive Carsley, Thames Water Plc.
Contact: European Study Conferences
Tel: 44 (0) 171 386 9322
LONDON

SEPTEMBER 18-19
Re-engineering for growth
Practical Senior Management Seminar and Workshop on Business Process Re-engineering. Challenging new content includes the organisational implications of implementing BPR, self-directed teams and transitioning to a process centred organisation. Limited places for maximum benefit.
Contact: Vertical Systems Intercede
Tel: 01455 250266 Fax: 01455 890521
LONDON

INTERNATIONAL

JUNE 27 & 28
The 1995 Offshore Funds Conference
A two day conference on developments in offshore investment management, marketing, product design and distribution. Speakers from established and developing domiciles will also discuss the valuation of derivatives, the use of limited partnerships and expense ratios.
Contact: Andrew Hodsman, Cadogan Financial Tel: +44 171 925 1000
Fax: +44 930 8402
LONDON

JUNE 16
Bank of America: Seminar on Spain: "Politics, Economy and Outlook for the Markets"
Keynote speakers: José Luis Malo de Molina, Bank of Spain; Manuel Conthe, Spanish Treasury & Tom Burns, Financial Times.
Contact: Lorenzo Rodriguez
Tel: (34) 1 5555500 Fax: (34) 1 5558823
MADRID

JUNE 26 - 28
Airports 2020: Future Prospects for the Air Transport Industry
Speakers from major airports, airlines and aircraft manufacturers around the world will address the key commercial and technological issues facing the industry, and develop strategies for the future.
Contact: Linda Johnson, Airports Council International. Tel. +41.22.798.41.41. Fax. +41.22.788.09.09
MONTREAL

JULY 6 & 7
Restructuring & Privatisation of the ELECTRICITY Industries in CENTRAL and EASTERN EUROPE
Sponsored by Price Waterhouse, and including the following speakers: RAO 'ESS Rossi', Áv Rt. Polish Power Grid Company, CEZ, Slovenské Elektrárne, Bayernwerk, Eastern Group, Southern Electric, PreussenElektra/
Contact: Susan Mason
Tel: +44 (171) 453 2125
Fax: +44 (171) 323 4298
BUDAPEST

OCTOBER 11-12
World Aid/Euro Aid 95 Conference & Networking Exhibition
Business opportunities in worldwide aid programmes for EU consultants, contractors, suppliers, governments, financial institutions etc. Networking meeting place. Includes WORLD AID GUIDE.
Société Générale de Développement SA, Brussels
Tel: +322 512 4636 Fax: +322 512 4653
BRUSSELS

THIS WEEK

As in sport, so in politics

DATELINE

Johannesburg: the white community could play a bigger part in easing pressures, writes Roger Matthews

Politicians have long been aware of the power of sport to bind disparate peoples, at least temporarily, into a nation with a common purpose.

There is no better current example than President Nelson Mandela who has used the rugby world cup to burnish his already shining reputation among much of South Africa's white population. He warmly embraced the national team, visited the players in their training camp, was present for the initial triumph over Australia, and never once commented critically on the striking absence of black faces. It was gesture politics at its most effective. Radio phone-in programmes were inundated by calls from grateful listeners praising the president, and white-owned newspapers were no less anxious to promote the view that the predominantly white sport of rugby had served to unite the country politically.

A week later a dozen international players visited Soweto, the teeming and grossly deprived black township outside Johannesburg which had played such a prominent and painful part in the struggle against apartheid. It could have been the South African squad which made the gesture and reaped the gratitude, but instead it was the Welsh who became the first international team to visit Soweto and conduct a training session for 200 of the township's youngsters. The visit helped also to underline the more profound challenges facing South Africa, and why bitter references to what is seen as a lack of white reciprocity crop up increasingly in conversations with ministers and senior members of the ruling African National Congress.

In part, the Sowetan experience offered the best of the new South Africa. The initial negative impression, created by wailing sirens and seven police vehicles parked around the scuffed and uneven open space where the training session was to be held, proved misleading. The mainly white officers of the Sowetan Flying Squad were not there to intimidate, but because last year several of them had become members of the local black rugby club. Multiracialism was beginning to take root on the sports field in Soweto.

But while the will for further progress was there, as it is on the broader South African stage, the means for carrying it forward had yet to materialise. "We have become very fashionable. Everyone wants to say they have played against Soweto, because of our name and because we are integrated," says police major Martiens Steyn. "But apart from some kit and other equipment given to us by the British we have nothing, no proper pitch, and what little money we can raise goes on travelling to away matches. Why don't you go and ask him what help he's prepared to give us?" Him was Avril Malan, former captain of the Springboks, now director of development with the regional rugby authority.

Malan is sympathetic to the Sowetan plight, keen to emphasise the social benefits of integrated rugby, but deeply cautious about the provision of material assistance. He emphasises the need for a gradualist approach, both in terms of rugby administration and in the development of players.

As in sport, so in politics. Some of those frustrated with the slow pace of economic delivery were back in their tens of thousands on the streets of Johannesburg last week. It was the biggest demonstration in the city for more than a year, and a reminder of the political muscle that the trades unions can muster. The specific union targets were to secure improvements in the proposed new labour relations legislation, and to persuade the government against moving any further towards the privatisation of state assets. Mr Mandela may not have agreed with the unions specific aims, but he was not going to miss the opportunity to make a brief appearance in a gesture of sympathy with the people who had brought him to power.

But it was a political gesture that drew a howl of protest from Mr F W de Klerk, the last white president of South Africa, leader of the National Party, and deputy president in Mr Mandela's cabinet. "The demands of time require President Mandela to be full-time president to everyone in South Africa, and not to give so much attention to the party interest of the ANC," he told parliament last week. By appearing at the demonstration, Mr Mandela was backing the unions, sending all the wrong signals to foreign investors, and drawing a line through cabinet decisions.

Mr Mandela's action had cast a dark cloud over the prospects of securing balanced labour relations legislation, thundered Mr de Klerk. It was an outburst rich in irony for ANC members, and illustrated again one of the largest gaps in perceptions between the black and white segments of the government.

ANC ministers are sensitive to the pressures at the grassroots, which they say are becoming more acute. They accept that economic progress will be much slower than they would wish, and are increasingly anxious about finding ways of reassuring their supporters. The National Party, and the white community at large, could play a significant part in helping to ease those pressures. But ANC ministers say there is minimal response.

Whites accept Mr Mandela's efforts at reconciliation as their due and give little in return. All parties accept the need for a more equal distribution of national wealth and opportunity, but the efforts being made to address the issues are falling well short of what is required. In the pursuit of nation building, it might just be more productive to build better playing facilities for rugby in Soweto, than to win the world cup.

FT GUIDE TO
G7 SUMMITS

So it's that time of year again. The Heads of government of the Group of Seven countries are heading off for sunnier climes for their annual summit.

Well, Halifax, Nova Scotia, may not be everyone's idea of a weekend break. But you've got the drift. The leaders of the G7 – that is the US, Japan, Germany, France, Britain, Italy and Canada – will be converging on Halifax on Thursday and staying until Saturday. Finance and foreign ministers will also take part, as will Mr Jacques Santer, the president of the European Commission, and Mr Boris Yeltsin, the Russian president, who arrives on Friday.

This is the economic summit, isn't it?

The G7 meetings started as economic summits. That was in the mid-1970s when the world economy was reeling from the breakdown of the post war Bretton Woods system of semi-fixed exchange rates and the first oil shock.

International monetary relations, multilateral trading issues and economic relations with the developing world have been on the agenda of all G7 summits. But while economic policy has been the core business of the summits, the interest shown in it by the leaders has varied. The early summiteers put their faith in policy co-ordination to pull the world out of recession.

This approach was discredited by the early 1980s because of high inflation, and countries relied more on their own policies. Co-ordination was back in vogue in the mid to late 1980s only for the G7 to revert to the Sinatra Doctrine of "doing it my way" in the recession years of the early 1990s.

The deployment of Soviet SS-20 missiles in Europe and the invasion of Afghanistan meant political and security issues became increasingly important from 1980 onwards. The fall of the Berlin Wall and the collapse of Communism in 1989 created a whole new agenda and brought Russia increasingly into the G7 orbit so that it now joins in the political talks in the G7½.

So it's really just an opportunity for bigwigs to chew over the issues of the day?

Not really. A lot of preparation goes into the summit. That's where the "sherpas", the officials who prepare the meetings, get involved. A good part of this year's summit will be concerned with the reform of international institutions such as the International Monetary Fund and the United Nations because the leaders agreed last year that they would work towards that.

On the other hand, summits are always being overtaken by external crises. An Israeli invasion of Lebanon overshadowed Versailles. The nuclear fall out from the Chernobyl disaster hung, literally, over Tokyo in 1986. This year's summit will probably be overshadowed by events in Bosnia. The fact that the threat posed by Chernobyl will still feature in this year's communique shows how some crises become fixtures.

All this talk of preparation seems bizarre. I thought these meetings were supposed to be informal get-togethers?

That was the original idea. In fact, the first of these annual jamborees, the Rambouillet summit in France in November 1975 was billed as a "fireside chat". Only six countries took part that year (Canada came on board in 1976, the European Commission in 1977). Delegations were small.

After that the summits ballooned in size and splendour. An early warning sign of burgeoning pomp came in the preparatory phase of the 1980 Venice summit when Washington bombarded the Italian authorities for details of President Jimmy Carter's motorcade (difficult to supply in a city of canals). However, the past two years have seen an effort to bring the summits back towards the Rambouillet ideal.

Why is that?

As a rule of thumb, the bigger the summit the more useless it has been. Certainly, that was the case with Versailles in 1982 which was an extravaganza, notable only for ill-concealed acrimony among the participants. The Paris summit of 1989 was big and jolly, but that was because it got mixed up with the celebrations of the bicentenary of the French revolution.

No one remembers the 1990 Houston summit for its record 84-point economic declaration. Instead it was the look of puzzlement on Mrs Margaret Thatcher's face when she was presented with a pair of cowboy boots, and the ten-gallon hat worn by the diminutive Japanese premier Toshiki Kaifu at the summit rodeo that stick in the mind.

Summit extravaganzas became discredited with the Munich meeting in 1992. An excess of ceremony helped Munich stretch over nearly four days, making it the longest summit so far. Munich was where President George Bush and the US sherpas are supposed to have needed more than 40 vehicles to move them from one location to another. The G7 leaders finally realised that such excesses did not play too well with TV audiences at home who were suffering from the effects of recession, especially when little was achieved.

The Munich summit, for example, failed to address the key problem of that year - the stalled multilateral trade talks. Adding insult to injury, the G7's final economic declaration, which pledged to "act together to assure … growth picks up", was followed barely a week later by a Bundesbank interest rate rise that added to Europe's economic misery and accelerated that autumn's crisis in the European Monetary System.

But surely, they haven't all been non-events?

No. The Bonn summit of 1978 was an early example of activism. The seven agreed a co-ordinated boost to their economies, with Germany taking the lead. Unfortunately, these plans were upset by the second oil crisis and crashed in recession and inflation. Germany ended up blaming the Bonn summit for an uncharacteristic spell of inflation that helped end the career of the then Chancellor, Helmut Schmidt. Germany has been averse to policy co-ordination ever since.

So you are telling me that these summits are a waste of time?

Yes, I mean no.

The summits do set benchmarks against which future actions and policies can be judged. They have probably helped to reinforce common values, such as faith in market-based economic policies, among the seven.

It is possible to argue that the summits have saved the world from protectionism and a 1930s style depression, especially in the early years. At that time, the world economy was less interdependent and the annual G7 pow-wow helped keep beggar-my-neighbour policies at bay.

In this age of information overload, it is probably even more important for leaders to understand each others' problems at first hand. But it's a close call. The present particularly nasty trade dispute between the US and Japan either shows you how important it is that the G7 leaders stay in touch or how little progress they have made in 20 years.

So have summits a future?

The omens for Halifax are quite good. If all runs according to plan, it will be a greatly slimmed down affair compared with the meetings of the early 1990s, and far more workmanlike. At the last count, 5,100 delegates, journalists and observers were expected in Halifax for the event. That is an awful lot less than a few years ago.

With luck, this week's meeting might give G7 summitry a new lease of life. However, at some point there will have to be a review of the G7's composition and the logic behind the group. It is hard to see how a group containing four European nations while excluding vast, fast growing economies such as India and China can hope to set the world's economic agenda in the longer term.

Peter Norman, Economics Editor

PEOPLE

Prague's late night corporate lawyer

Vincent Boland finds Daniel Arbess burning the midnight oil over investment in the Czech Republic

When Daniel Arbess was leaving New York to begin working for his law firm in impecunious eastern Europe five years ago, his senior partner took him aside for a final word of advice. "You'd better make sure we get paid," the partner confided, anxiously.

Memo to White & Case, New York: Arbess worked 42 straight hours the first Friday and Saturday of this month. Then he got three hours' sleep and got up to work some more. Memo to Czech government: the bill is in the post.

The reason for the long hours is one of the most complicated deals ever negotiated in the Czech Republic – a $700m investment in the oil refining industry by a consortium of western oil majors that looks set not just to break the lawyer's endurance record but to rewrite Czech law in a crucial and underdeveloped area.

If the deal is closed by deadline – and success is not guaranteed because it is so complex – it will be another landmark in the career of the 34-year-old Arbess, who has cut his teeth and made his reputation as a lawyer in helping the Czech Republic deal its way to the top of the inward investmentleague in eastern Europe.

"This has been a great place to do big deals," Arbess says, swivelling in his chair at his desk in one of Prague's best located offices, the Old Town Square spread invitingly below his window.

Arbess is managing partner in Prague of White & Case, the blue chip US law firm, and head of its global privatisation unit. He earned his elegant office and his stiff fees through a rare – and occasionally intimidating – mix of brilliance, arrogance and a conviction that what he is doing, extending the country's legal environment with every deal, is historic.

"He's relentless, just a brilliant negotiator with a total grasp of the nuances" of Czech law, says a rival lawyer.

A graduate of Osgoode Hall law school in Canada and of Harvard, Arbess took an interest in arms control issues and international affairs as a student, which persuaded him that the Soviet Union's military threat was exaggerated. A period working for White & Case in Stockholm on US-Soviet joint ventures in the late 1980s convinced him he was right: Perestroika, then in full flow, was about to transform eastern Europe.

Arbess had visited Prague as the Velvet Revolution was beginning; when communism fell, he persuaded his deeply conservative firm that eastern Europe should be taken seriously as a market. He arrived in the Czech capital with the blessing of his bosses and with impeccable contacts, having met most of the current Czech government's senior ministers on their first visit to the US in 1990.

The Czech Republic has set the pace of east European economic liberalisation, and Arbess has advised the government on almost every noteworthy foreign investment deal over the past five years. These include Volkswagen's investment in Skoda: shoe king Tomas Bata's return to his native land; and a so far unsuccessful attempt to settle a trademark dispute with Anheuser Busch, the US brewer, over Czech Budweiser.

Finding work was not easy initially. "I was sitting alone in Prague saying 'this is where it's going to happen'," he says. He was almost alone in that view, but not for long. Other western law firms and banks soon followed, lured by the goverment's radical reform plans, and assignments flooded in.

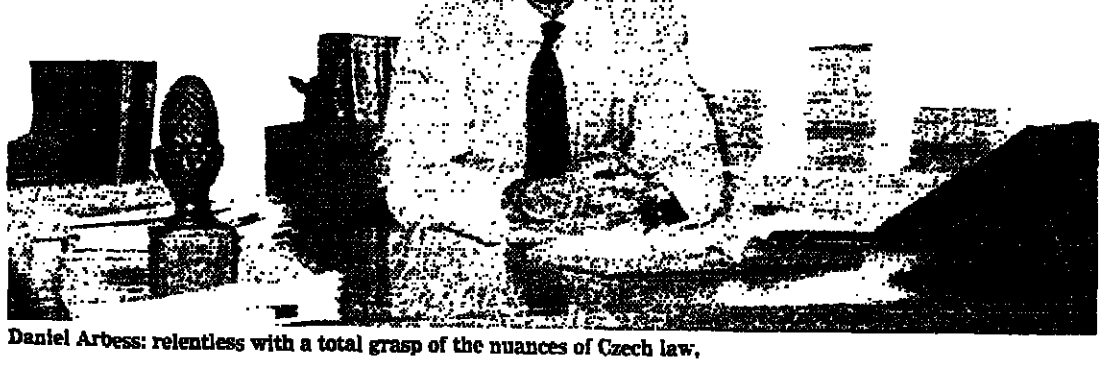
As the firm won more business in Prague and elsewhere in the region, White & Case was propelled to the top of Privatisation International's league table of legal advisers in 1992 and 1993. Arbess was rewarded by becoming a partner in the firm in mid-1992, just four and a half years after joining. The usual apprenticeship is eight years.

His thoughtful but supremely confident style and his formidable contacts have led some rivals to ask whether Arbess is not living a charmed life in the small and exclusive circle of power in Prague. He disagrees. Having visited hundreds of Czech companies while other advisers queued for business at the ministries, he is aware of the context in which he operates.

There is no sign that he is slowing down, but his recent luring of Jan Matejcek from Squire Sanders & Dempsey to become his partner in Prague could be a prelude to a move. He has advised the Russian government on privatisation and Moscow, where even bigger deals await, could be one destination. But so could New York or London, he says – and he plays down talk of an imminent move.

But the Czech market is maturing and the pioneering days are nearly over. "He's too good a lawyer for the bread and butter legal work that is needed here long term," says his friend Richard Wood, a leading Prague stockbroker.

First, however, there is the oil refineries deal, which has been in the pipeline for nearly two years. Despite the hard work involved – imposed by an absolute deadline for agreement of June 30 – Arbess clearly loves the challenge. "There's so much fun to be had being a lawyer," he says, as he prepares for another sleepless night.



Daniel Arbess: relentless with a total grasp of the nuances of Czech law.

NAMES IN THE NEWS

IBM gives Manzi new lease of life at Lotus

Jim Manzi, chairman and chief executive of Lotus, will stay on to run the personal computer software company under the $3.5bn (£2.2bn) agreed bid announced yesterday by International Business Machines, **writes Louise Kehoe in San Francisco.** Manzi, 43, will become a senior vice president of IBM.

Known for his intellectual prowess, sharp wit and strong will, he has ruffled lots of feathers during his nine years at the head of Lotus. In particular, he has been an outspoken critic of Microsoft, the industry leader, and waged a bitter five-year legal battle with Borland International over copyright issues.

Manzi has also been widely criticised for Lotus' first quarter losses. "Generalissimo Jim Manzi marches like an industry strongman, but seems unable to run a company that can make a profit …" says David Coursey, editor of PC Letter, an industry newsletter.

Manzi joined Lotus in 1983, one year after the company was formed. Before that, as a consultant for McKinsey & Co, he was involved in bringing Lotus' first product, the 1-2-3 spreadsheet, to market. He was appointed chief executive in 1986 and elected chairman later the same year, upon the retirement of Lotus founder Mitch Kapour.

Afternoon tea with Khoo Teck Puat

Most afternoons a distinguished, rather frail Chinese gentleman in a white suit takes tea in the lounge of the Goodwood Hotel in Singapore, writes Kieran Cooke in Kuala Lumpur.

Khoo Teck Puat not only owns the Goodwood, one of the island republic's more refined hotels. He is also one of Singapore's richest men, with a personal fortune conservatively estimated at US$1.6bn. Last week Khoo, 78, expanded his hotel empire, paying $104m for the Royal Garden Hotel next door to Kensington Palace, Princess Diana's London home.

The son of a rice trader, Khoo started his career at the Overseas Chinese Banking Corporation during the war, working his way to the top of what is now one of Singapore's big four financial institutions. Frustrated that he was not made chief executive, he decamped to Malaysia, where he set up the Malayan Banking Corporation, now the country's biggest financial house.

Once again he quit after a boardroom quarrel, and turned his attentions to one of the pillars of the old colonial banking community – Britain's Standard Chartered Bank, which has big interests in the region. When it faced a hostile bid from Lloyds Bank in 1986 it was Khoo, along with Sir Y.K. Pao, the shipping magnate, and Australian tycoon Robert Holmes á Court, who came to its rescue by buying a blocking stake.

His partners have both died since then and their stakes have been sold, but Khoo, who owns 15 per cent of the British bank, has stuck with his investment through good times and bad.

At one stage he was negotiating to buy controlling stakes in Hongkong Land and Wheelock Marden, one of the territory's oldest trading houses. But then the bubble burst and he ran into trouble with the National Bank of Brunei, which he had helped set up in the mid-60s. Khoo had to step down from the Standard Chartered board and disappeared from the corporate scene.

Apparently all is now settled and Khoo can take his tea in peace. His $800m investment in Standard Chartered has proved the merit of being a long-term investor – albeit not always a welcome one.

Bernard Ashley's glamorous suitor

Georgette Mosbacher, the wife of former US commerce secretary Bob Mosbacher, takes pride in glamorous, even shocking attire. One can hardly see her donning a demure Laura Ashley print, **writes Jill Davidson in Washington.**

But, despite protestations from Sir Bernard Ashley that he has no intention of selling his 34 per cent stake in the company named for his late wife, the American businesswoman and socialite is still interested in acquiring the British fashion and furnishings group.

Mosbacher, who kicks off her curriculum vitae by claiming to "represent what is possible in America", currently heads her own vehicle, Georgette Mosbacher Enterprises. As well as hawking The Exclusives by Georgette Mosbacher cosmetics line on cable shopping network QVC, she has been particularly in the public eye since the publication of her book Feminine Force, expounding Camille Paglia-style feminism.

She is a Republican fundraiser. Her husband is one of President Bush's oldest friends, and she is co-chairman of the Republican National Finance Committee.

Her office is staying quiet concerning any next move on the Laura Ashley front. But Sir Bernard should perhaps not underestimate her. "If you work hard, anything is possible", as that cv points out.

Oh, Kay!: Tommy Krasker, Eric Stern and Dawn Upshaw

MUSIC

■ Fans of Van Morrison, who have had to endure some startling fluctuations in the quality of his output over the years, will greet *Days Like This* (Exile) with a sense of relief. It is a welcome return to form, mellow and occasionally positively jaunty in mood; even the album's "bummers", "Underlying Depression" and "Melancholia", don't really convince that Morrison is anything but content with his lot. The album's highlight, "Ancient Highway", is eight minutes-plus of serene mysticism, worthy to stand alongside his very best work, which is saying something.

□ Back in the mists of time, before New Age ambient music became fashionable, a keyboard player called Rick Wakeman composed long instrumental pieces which people mocked for sounding like inferior movie soundtracks. Well, cometh the hour and all that; *The Seven Wonders of the World* (President) is a series of melodic mood pieces based on the Hanging Gardens et al, touchingly dedicated to the former Yesman's family, and immaculately played and arranged on digital keyboards.

■ One of the Gershwins' most charming musicals, *Oh, Kay!* (Nonesuch) is given a fresh account by, among others, Kurt Ollmann, Dawn Upshaw and the Orchestra of St Luke's, conducted by Eric Stern. It has one of the brothers' most enduring standards, "Someone to Watch Over Me".

□ Shostakovich's magnificent Symphony Number 13 "Babi Yar" was hardly given the most expansive review by nervous Soviet officials in *Pravda:* "Yesterday the Thirteenth Symphony by Shostakovich was performed." It is a fierce, controversial work, vibrantly played here by the Chicago Symphony Orchestra conducted by Sir Georg Solti on Decca, with Sir Anthony Hopkins reading the Yevtushenko poems which inspired the composer.

■ In brief: Englebert Humperdinck's new album, *Love Unchained* (EMI) has the impudence to kick off with "Too Young", and doesn't get any better (or younger); Edgar Froese, of Tangerine Dream fame, combines old and new material on the double *Beyond the Storm* (Virgin); Therapy? sound fashionably gloomy but a little passé on *Infernal Love* (A&M).

Peter Aspden

FILM/VIDEO

■ With Thomas Jefferson we go to Paris this week: a safe distance from which to view the other American releases which consist of *Bad Boys*, an inchoate black crime thriller, and *Silent Fall*, a duff murder mystery starring Richard Dreyfuss and a corpse.

Meanwhile, and more momentously: Did the father of the American Constitution and one-time ambassador to France (Nick Nolte) have a child-fathering affair with his black slave girl? Did he also love and leave a British painter's wife (Greta Scacchi)? And did he wander round Paris witnessing everything from the early days of hot-air ballooning to the first stirrings of the French Revolution? *Jefferson In Paris* is visually sumptuous and historically intriguing. But the team of Ivory-Merchant-Prabhvala, purveyors of fine cinema to the gentry, spread their story a little too wide and their wit too thin. You cannot be bored, even over 2½ hours. But fewer plots and perspectives, and a more alert or irreverent focus, would have done wonders.

□ The best new film – hold on to your credulity – is from Cambodia. Rithy Panh's *Rice People* is a stern but strong rural drama, with a Hardyesque feel for the cruelties of nature. Its tale of failing harvests and stricken families may sound un-tempting as a night at the movies. But as the performances exert their power – especially Peng Panh as mad Mum – you will do far less clock-watching here than in the week's rival films.

■ On video, interesting films rear up from the past. *Cold Heaven* is a middling-to-mesmeric Nicolas Roeg movie. *Scenes From A Marriage* is Bergman's coruscating drama of connubial breakdown. And, at last, there is Tarantino's *Reservoir Dogs*.

Nigel Andrews

MANAGEMENT

Tim Dickson examines the changing face of consultancy following the planned controversial merger between EDS and AT Kearney

A blend of aggression and tradition

Management consultants seldom capture the public's attention, except perhaps as the butt of hostile remarks from jaundiced businessmen.

Last week's proposed merger between EDS and AT Kearney therefore presents a rare dash of colour by bringing together a part of the aggressive US computer services company founded by Ross Perot, and a low-key but well-regarded independent consultancy which had its name on the same letterhead as McKinsey 50 years ago.

The controversial transaction – whereby EDS will acquire Kearney and merge its own unit into a new subsidiary trading under the Kearney name – creates one of the top 10 management consultancy groups in the world. But it also raises important issues about the emerging shape of the management consultancy industry over the next few years.

Are integrated, one-stop "shops" – of which EDS/Kearney is by no means the only example – the dominant model for the late 1990s? Will there be a flurry of corporate activity as other big players reposition themselves to meet the new competition? If so, can the resulting alliances withstand those cultural problems which invariably arise when merging "people" businesses in general, and management consultancies in particular. Stories of staff at one newly "integrated" London firm using separate lifts in the same building may be sensationalist, but they are also salutary.

Management consultancies' lacklustre image notwithstanding, the sector's prospects look anything but dull. Most of the big six accountancy firms, for example, reported last week that their UK management consultancy arms had increased revenues by between 10 to 20 per cent last year, with Touche Ross, KPMG and Ernst and Young all recording close to 25 per cent growth. The research consultancy Gartner group – in a report published in March – estimates that worldwide fee income from consultancy will increase from $11.4bn (£7bn) in 1994 to $21bn in 1999, equivalent to a compound annual growth rate of 13 per cent. Few other industries can look forward to such a rosy future.

The forces driving companies to hire management consultants – who do everything from advising chief executives on strategy to installing and running a new computer system – come from several directions. Business uncertainty is perhaps the key factor as senior executives seek guidance on which way their industries are headed, how business processes should be structured, how to empower their employees, and how technology can be used to attain their business goals. "I've been through other cycles and in my experience the growth of our business is greatest when the rate of change is greatest", says John Pendlebury, managing principal of EDS Management Consultancy Services Europe. Another factor favouring consultants – thanks to the "downsizing" and stringent cost cutting of recent years – is the shortage of available talent inside companies to carry out these assessments.

Consultancy firms come in all shapes and sizes – from multinational giants like market leader McKinsey to sole practitioner tiddlers – but in terms of fee income the big six accountancy firms still dominate (see table). Built up on the back of their traditional accounting practices and extensive business networks in the 1980s, they all feature in Gartner's top 10. Andersen Consulting, Ernst & Young and Deloitte & Touche are all in the top five.

"Traditional" firms – such as McKinsey, Boston Consulting Group, Booz Allen & Hamilton and AD Little – are generally best known for their strategic expertise. But some of the fastest growing players in recent years, IBM and EDS among them, have spotted the the opportunity to consolidate client relationships by selling "upstream" consultancy services on top of their core outsourcing and systems integration skills. Andersen and Gemini Consulting are also seen as particularly strong in "implementation".

EDS, founded by Perot in 1962 and now a quoted subsidiary of General Motors, makes most of its money running the computer networks of its clients more efficiently than they can. Like all companies in the technology industry it has had to take bets on which products its customers will want in the information age, and management consultancy is certainly one of them. Since mid-1993 the firm has aggressively hired 1,300 consultants, bought up seven smaller firms and, more or less from a standing start, has built up a business with an estimated $200m in revenue. Kearney, however, is the big one.

By adding the Chicago-based partnership, which effectively began life in 1929 when Andrew Thomas Kearney joined James O McKinsey & Company but only adopted its present name in 1946, EDS more than doubles its size. More to the point, however, it lends plausibility to its claim to be an integrated player coupling information technology and process management capabilities with Kearney's more traditional consulting skills. This follows a trend in the market towards offering packaged solutions – from strategic advice all the way through to systems design and implementation – which can be seen in Gemini's successful "Transformation" product and to a lesser extent in McKinsey's Pentagon (with its emphasis on shareholder value).

EDS, meanwhile, clearly has bigger ambitions if the relative sizes of the information services industry and the management consulting business is anything to go by. "For every $10 we earn from our traditional activities we find there is about $1 of consulting work," explains Pendlebury. Given EDS's more than 80,000 employees worldwide there is scope on this basis substantially to expand the newly enlarged management consultancy division, which, post Kearney, will have more than 2,300 consulting professionals or 3,500 people in all. Adds Pendlebury: "We have three methods for growing: aggressive hiring, organic growth and selective acquisitions. Acquisitions will either be global as in the case of Kearney or more niched as with, for example, the purchase of Eurosept in France last year."

Leading worldwide management consultants for 1994

	Revenue $m	Share of market		Revenue $m	Share of market
McKinsey	1,400	12%	CSC	310	3%
Andersen Consulting	950	8%	Arthur D Little	305	3%
Ernst & Young	880	8%	AT Kearney	300	3%
Deloitte & Touche	605	5%	Bain	280	2%
Gemini Consulting	560	5%	Mercer Management	220	2%
C&L	545	5%	EDS (MCS)	208	2%
BCG	440	4%	IBM	195	2%
Price Waterhouse	420	4%	Other	3,000	26%
KPMG	390	3%			
Booz Allen & Hamilton	380	3%	Total	11,400	100%

Source: Gartner Group estimates

Not surprisingly in a business stuffed with "insecure overachievers" as one insider put it last week, sceptics are lining up to pooh-pooh the EDS strategy. Few of them deny the value of the Kearney brand, its complementary "skill sets" (notably in logistics and manufacturing) and the additional geographic coverage which the Chicago-based firm will bring.

What they question, though, is whether vertical integration is an inevitable trend. "Consulting depends on the individuals involved," is one typical comment. "In our experience clients are willing to make up their own minds, and more often than not each service is sold at a different level in the organisation to a different buyer. There is much more decentralisation of decision making on this sort of thing than there was 10 years ago."

Precedents elsewhere, however, suggest that mergers can create giant people businesses – and that this may be what clients want. Take stockbroking for instance, which has been radically restructured over the last 10 to 15 years, despite initial criticism that the big players were wildly overpaying for a place at the table. The takeover of SG Warburg by Swiss Bank last month was a vivid reminder that companies which are medium sized in global terms often struggle to find an independent role.

It is certainly possible that cultural differences will surface and defection of some key people or even teams cannot be ruled out. Kearney itself lost a large chunk of its financial services capability when more than 150 consulting professionals left to set up the Mitchell Madison Group last autumn. Kearney's shareholder base – 118 shareholding partners – is narrower than many of its rivals and it is quite possible that some of those outside this circle who contribute to the firm's bottom line will be feeling disenfranchised.

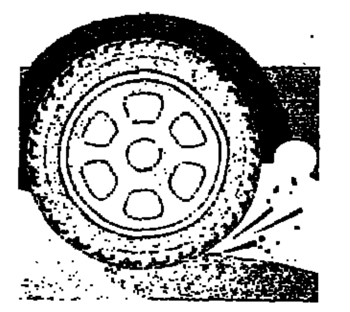
It would be unwise, though, to under-estimate EDS's ability to make the Kearney marriage work. Not all precedents in the management consultancy sector point to blood on the walls, as the relatively smooth creation of Gemini from the merger of different firms can demonstrate.

Financial sweeteners, moreover, will help ease the pain. Approximately 7m shares of GME stock (special shares issued by GM for the purchase of EDS), reflecting EDS's performance and worth $296m at Friday's market price, have been vested over the long term for certain Kearney people joining the new entity. And, while EDS senior vice-president Gary Fernandes will serve as chairman of the board of the new subsidiary, its CEO will be current Kearney CEO Fred Steingraber. Kearney's headquarters will remain in Chicago, well away from Plano, Texas-based EDS, if not too far from General Motors' Detroit base.

Possibly of most significance is EDS's proven ability to take onto its own books large numbers of people from corporate cultures alien to its own and absorb them successfully into its own ranks. Over the past 18 months in the UK, for instance, the Inland Revenue's 2,500-strong computer staff have ceased to be civil servants and joined the EDS payroll – a challenge which might cause upheaval in most companies but which EDS apparently now takes in its stride. Of the 80,000 worldwide employees more than half have "emigrated" in this way.

This has been a powerful learning opportunity for a company whose newly bolstered subsidiary will be lecturing clients about empowerment, trust, team-based leadership and other appropriate buzzwords from the consultancy lexicon.

A bigger concern might be whether EDS is overpaying by offering $300m in cash and contingency payments, not least given strong indications that the talks may have been going on for a couple of years while Kearney shareholders held out for more. The answer to that probably depends on whether optimism about the industry generally proves to be well founded. Another deep recession would be harmful given that chief executives tend to be less future-focused in tough times. A talent shortage could yet dent the industry's expansion and failure to find a successor to the extremely lucrative business process re-engineering craze might also be damaging. Given consultants' notorious creativity in developing new products, that somehow seems the least likely problem.



FAST TRACK

MorphoSys

As conversation stoppers in Germany's financial community, the topics of venture capital and biotechnology would be hard to beat. Risk financing is scarce and genetic engineering often viewed sceptically.

But the southern state of Bavaria likes biotechnology companies and is keen to finance them. One beneficiary is Munich-based MorphoSys, which still has to reach the profits stage but has caught the attention of pharmaceutical companies due to its pioneering biomedical research.

"Venture capital is difficult here, there's no question about it," says Simon Moroney, the chief executive. "But you can get a lot of soft money on a scale that's unprecedented anywhere." Thus it is embarking on a third financing round in which each D-Mark of venture capital will be matched by two from state and federal funds.

MorphoSys is researching drugs for cancer and other diseases by seeking to optimise the properties of proteins and peptides (amino acid compounds), especially as antibodies. Some companies in the US and UK do this by working with transgenic animals such as pigs and sheep and others build up synthetic molecule libraries.

The unique MorphoSys method, stemming from the work of Andreas Plückthun, a German biochemistry professor, is to select the best biochemical variants from a vast number and repeat them over and over again. In the case of cancer treatment, an antibody variant would be chosen which binds best to the malignant cell and be repeated constantly.

"It's molecular evolution," says Alex Korda, joint managing director of Korda and Company, a UK venture capital company which invested in MorphoSys two years ago. Korda, the German federal government and Technostart, a Stuttgart-based technology finance operation, together put in DM2.1m (£950,000).

A further DM3.7m was provided last year, with Atlas Venture Capital (Dutch-based with a German operation), Standard Life of the UK and Jafco (part of Nomura Securities) also participating. It hopes a UK institution will participate in the new DM8m financing round.

"Sales don't exist at this stage," says Moroney. "It's purely venture capital." All the money now goes into research and development. He hopes for "cash neutrality" in about two years. But adds: "The potential rewards are enormous".

The company is pinning its hopes on big drugs companies' desire to put out more research to specialised companies. MorphoSys is in advanced talks with a British group on development of a prophylactic for septic shock (associated with invasive surgery) and with a German company on a diagnostics kit.

Moroney says the company's techniques are widely applicable – "any disease is associated with some aberrant molecule".

In about two years, MorphoSys hopes to give its investors (who own 75 per cent) an exit through a share flotation – possibly on Easdaq, the planned European version of the US's Nasdaq – or a trade sale. It may then link up with another company, possibly in the US, to give it greater strength in the field of antibody engineering.

Andrew Fisher

Knowing your place is good therapy

LUCY KELLAWAY

I've found out why I feel so tired all the time. It is not because my baby is waking me at night. No, it is because of the way my desk is organised. I have just been talking to William Spear, an expert in Feng Shui, the ancient oriental science of "placement". He says that to sit, as I do, with my back to the room with shelves above my head is to ensure that there will always be more work than I have energy to do. He says the situation would be remedied if I invested in a kidney shaped desk, and replaced the shelves with a mirror, so that at least I could see who was creeping up behind me.

According to the publicity material sent to me by the Feng Shui Network International, Sir Richard Greenbury, who must be the least faddy businessman in the world, believes in it. Companies including Virgin and the Hong Kong and Shanghai Bank are apparently using Feng Shui to increase their profits. Architects are queueing up to learn how to maximise the beneficial energy flow of buildings, and so too are estate agents.

That being the case, I asked Mr Spear for any tips to help me sell my house. He told me about one lady who could not understand why she was having such difficulty selling her desirable property until she discovered that the pointed eave of a neighbouring house was directed at her front door. This was very bad, as the sharp point represents fire, which melts metal. Once she attached something to her eave to deflect the fire, the property was sold at the asking price.

In my case, he said the sale would be clinched if I spent £20 or £30 on two round pot plants with red flowers and put them on the doorstep. Red, he said, is the right colour for bringing money into the house. I am prepared to give it a try, though it is touch and go in central London which will happen first: the money be sucked into the house, or the pots be stolen from the doorstep.

What I would like to know about last week's RSA inquiry into Tomorrow's Company is why it took two and a half years to produce. Even on the admission of the inquiry team, the report added little to the sum of human knowledge: instead its value was in drawing attention to some neglected aspects of business success.

This surely could have been done in a fraction of the time. The interim findings, published in February after more than a year's deliberation, were almost exactly the same as the final ones. They contained the dreary new phrase "inclusive company"; they discussed the over-reliance on financial measures of success, and bleated about the dangers of adversarial relations between companies.

I can only assume the generous timetable is what happens when you get quite so many big cheeses together. Tomorrow's Company may be one in which there is a happy partnership between all stakeholders; today's company is one in which the boss' diary is very full indeed.

The extraordinary amount of PR work done by the RSA may also have slowed progress somewhat. There was a video and a floppy disc to produce, and no fewer than nine pages of glowing endorsements to collect from everyone who is anyone is business. The endorsements themselves are not without interest, as nearly all the big names quoted take the opportunity of reminding us that their companies are already living by the findings of the report. Which is statistically odd, as the whole thrust of the RSA's inquiry is that the vast majority of British companies are still doing quite the opposite.

It is bad enough for Tubby, a middle-aged script writer, that Sally no longer wishes to be married to him. But what is intolerable is the fact that she, having just returned from a management course, is running their separation as if it were a business deal complete with agendas and memos.

In David Lodge's new novel, *Therapy*, the management course is seen as one of the essential trappings of the 1990s, along with aromatherapy, mid-life crisis and health club membership. But whereas aromatherapy is presented as a harmless – if ineffective – outlet for the hero's neurosis, the management course is something more pernicious.

I used to think the main danger of management training was that the lessons tended not to stick: you spent a lot of money only to forget the self-improving behaviour the minute the "facilitator's" back was turned. But now I see Lodge is right: the greater risk is that you take the lessons seriously and start trying to impose on top of your natural self some new behaviour that does not suit you.

If your boss, who usually ignores you, comes sidling up, all false smiles, and says what an excellent job you are doing, does it make your day? No: you wince, and conclude he has just come back from a management course, and hope it won't be long before he reverts to form.

BUSINESS TRAVEL

Rise in airfares

Greek air fares increased between 8 per cent and 9 per cent in the second quarter of the year compared with the same time last year, while discount economy fares in Portugal decreased 14 per cent, Scheherazade Daneshkhu writes.

Some of the biggest fare increases elsewhere were to eastern Europe and the Commonwealth of Independent States which increased between 4 per cent and 6 per cent. Amex said the upwards trend to these areas would continue as long as demand outpaces capacity.

Cholera alert

The former Soviet republic of Ukraine reported 20 cholera cases last week. The first cases were reported on Monday in Nikolayev, north of Odessa. The health ministry has blamed the outbreak on a decaying sewage system and the unwillingness of city authorities to stop dumping raw sewage into the Yuzhny Boug river, which supplies drinking water for 3m Ukrainians.

Two cases of cholera have been reported recently in Moscow, and people have been warned to buy only food with quality certificates and to avoid street vendors.

Manila security rapped

Security gaps at Manila's international airport are being tightened after the United States said it would cancel flights from the Philippines over the issue, Guillermo Cunanan, airport general manager, said.

The US Federal Aviation Authority was concerned about the airport's ability to detect liquid explosive used in an attack by suspected Moslem extremists on a Philippine Airlines plane last December in which a Japanese passenger was killed.

The US letter of May 4 gave the Philippines up to the first week of August to meet its security concerns.

Non-stops dropped

Delta Air Lines said this week it will discontinue non-stop service on two routes from its hub at Frankfurt later this year.

It will end flights between Frankfurt and Prague in November, but will start a daily one-stop service from Prague to New York's Kennedy airport via Amsterdam. Delta also said it will discontinue its non-stop service between Frankfurt and Dallas/Fort Worth at the end of November.

The airline said the discontinued non-stop service from Frankfurt to the two cities will eliminate 14 weekly flights at the Frankfurt hub.

Arrivals service

From Thursday United Airlines is offering a complimentary arrivals service at its nine European destinations.

The offer applies to full-fare first and Connoisseur (business) class passengers and includes a light breakfast, showers, access to the telephone and fax machines and, at some destinations, fitness facilities.

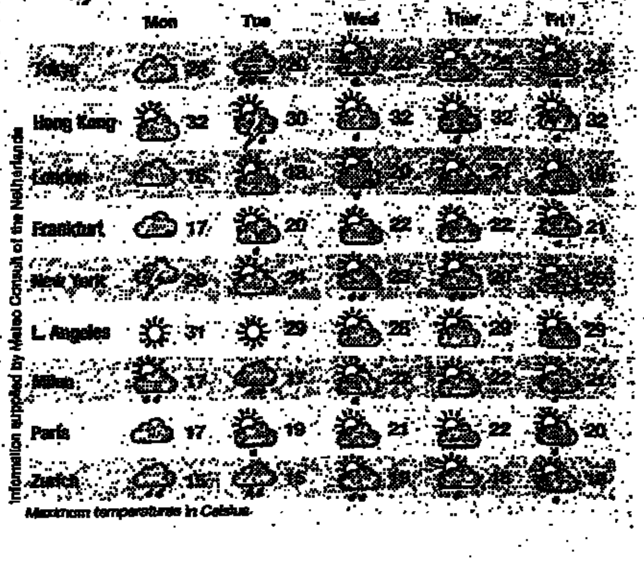
The services will be provided at United's Red Carpet Room airport lounges or at hotels with which it has an arrangement.

Strike threat

Two hundred Greek airport runway workers seeking better pay and conditions are due to stage a nationwide strike on Friday that is likely to delay flights, a union leader said.

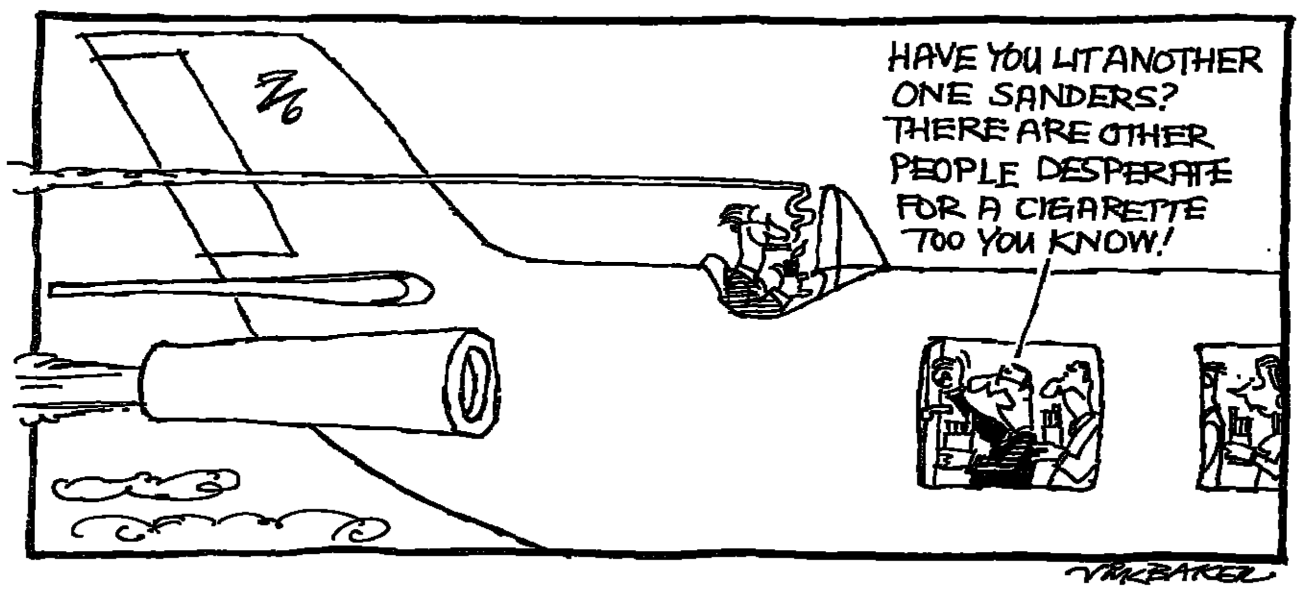
On Saturday, the broader Federation of Civil Aviation Unions, with 2,500 members, has ordered a 24-hour stoppage, to be followed by a 48-hour strike starting on June 23.

● *All SAS domestic and* international flights were grounded on Friday after pay talks with pilots broke down, the Scandinavian carrier said.



It is getting more difficult for smokers to light up in the air, says **Christine Buckley**

Last gasp for nicotine



Smoking or non-smoking . . . the question that has for long been part and parcel of checking in is becoming increasingly redundant. And the familiar overhead no-smoking sign, lifelong sidekick of the "fasten seatbelt" light, may also soon be without any work.

Last month Virgin Atlantic and United Airlines joined the growing number of carriers slapping a total smoking ban on certain routes. Both extinguished smoking on all their transatlantic flights, Virgin becoming the first European-based carrier to do so. The airline headed by Richard Branson – a former smoker and now member of Parents Against Tobacco – also included most of its Far East routes in the ban. But Virgin was forced to decide against a ban on its route between London and Tokyo because of the demand for smoking seats – the Japanese are formidable opponents of smokeless flights. All flights into Japan allow smoking. Similarly, Air New Zealand's ban on smoking was recently extended to all flights from Europe – except to Japan and Korea. Virgin's flights between London and Athens also allow smoking.

Much of the industry is pursuing an ambitious goal – set by the International Civil Aviation Authority – of banning smoking entirely in the air by the end of next year. Although the authority has no power to impose a complete ban, many airlines are happily and quickly heeding the call. A fresh ban is announced virtually each month.

In March the Federation of Tour Operators added its weight, saying that its members, which operate 90 per cent of charter flights from the UK, declared that charter flights of six hours or less would be non-smoking from November.

The airlines say the bans are prompted by market demand, although anecdotal evidence is strong that many travellers are determined to continue their nicotine habit airborne.

Earlier this year the Scottish Earl of Lovelace became a smoking *cause célèbre* when he took a 4,000-mile detour on a trip to Australia from Aberdeen so that he could have a cigarette on the journey, the direct route with Qantas having outlawed smoking.

However, all is not lost for smokers, even in the US, where the habit is frowned on. Travellers are increasingly choosing to favour Dallas/Fort Worth international airport with their custom. They say they prefer to make onward connections there where smoking facilities are greater than at a number of other airports and say they are happy to lose time changing at Dallas if it enables them to have a cigarette.

But demand for smokeless flying can be seen, even if it is only in the form of court cases brought by disgruntled passengers against airlines who have failed to provide a reasonably smoke-free atmosphere. Last year British Airways paid an out-of-court settlement to a family who said that they had to suffer passive smoking during a flight. And the number of actions brought by passengers on the grounds that non-smoking seating near the nicotine zone leads to discomfort is growing.

The tobacco and smoking lobbies counter that this could be alleviated if the airlines changed cabin air more frequently. However, airlines say they change cabin air frequently enough – British Airways says all the air on its flights is replaced at least every three minutes.

Forest, the UK pro-smoking group, also blames some of the anti-smoking popularity upon the US's zealous campaigning. In the US, where the health lobby is strong and vocal, smoking is banned on all internal flights shorter than six hours. Last year the health lobby sought to extend its influence beyond its own airspace when the US House of Representatives voted to ban smoking on all incoming and outgoing flights. The move did not, however, find approval in the Senate.

While the airline industry's drive to make the skies clearer of smoke is another victory for the anti-smokers who are steadily driving the addicted from practically every public place, it can also prove a problem for those who need to smoke.

A guide to smoke-friendly air travel is published by Forest, but as the airlines are changing their provisions so rapidly, smokers should check for themselves.

And it is worth remembering that the diehard smokers will invariably need to ask the airline rather than expect to be told as a number of carriers have a practice of implementing a ban without drawing attention to it.

If you don't think to ask before travelling the first you may know about a smokeless flight is when you don't hear that familiar question at the check-in desk: smoking or non-smoking?

House of delights in Brussels

AN HOUR TO SPARE

In the Brussels house of Victor Horta, the great art nouveau architect, now the Horta museum, one could easily spend an hour simply admiring the staircase.

Horta used the iron and glass of industrial architecture to dramatic effect in the domestic interior. At 25 rue Américaine, the stairwell's slender cast-iron columns open up the heart of the house. In fluid curves, golden tie-rods and girders rise throughout the building to support the glass and iron roof which floods the stairwell with yellow-tinted light.

There is barely a straight line to be seen, from the gently curving marble treads and scrolling metal banisters to the exuberant twists of the wooden handrail above.

Belle époque beauty is combined with all mod cons. An elegant radiator pillar, resembling nothing so much as a column of loosely stacked CDs, stands at the foot of the stairs. Cable for electricity is concealed within the tie-rods of the stairwell and glass lamps in the form of flower bells hang from these delicate metal stems.

Gleaming new materials combine with the sumptuous and traditional. In the dining room, above bands of pink and white marble and a floor of American ash and mosaic, there are walls and vaults of white enamelled brick – the finest marble would probably have proved less costly.

Structural metalwork is exposed and ornamented, and sculpture integrated into the whole through a series of *bas reliefs* portraying the arts.

Horta designed every last detail down to the door handles and hinges. Needless to say, he designed his own furniture, too. The museum also houses furniture made for various clients' houses, along with architectural models and designs.

Admirers of that other Belgian hero, Tintin, may prefer to visit another Horta building, the Magasins Waucquez department store at 20 rue des Sables, now the Centre Belge de la Bande Dessinée and devoted to the history of the Belgian comic strip.

Susan Moore

MEDIA FUTURES

Porn as a guide to business potential

Tim Jackson

It is always difficult to know whether or not a new media technology has real business potential. One way of deciding might be called Jackson's Laws of Media Futures. First law: if pornographers are among the early adopters of the new technology, then it has definite commercial possibilities. Second law: if there is a public backlash against pornographic use of the new technology, then its future is assured.

Looking back over new media that have become mainstream, one can see plenty of instances of these laws at work. The history of photography is one; premium-rate telephone service is another; the VCR is a third. So how does the Internet fit in?

Until a month ago, this new technology seemed to be a counter example. Its acceptance as an important new technology was beyond doubt. Its use for the transmission of huge quantities of sex-related material was obvious to the most casual observer. And yet nobody seemed to take much notice. The most serious attempt to curb Internet pornography had been easily outmanoeuvred in Congress.

This year, things are different. Senator James Exon, a Democrat from Nebraska, is back, demanding more stridently than ever that the Internet should be made "safe for children". His proposals have been appended to the telecommunications deregulation law currently before the Senate.

Political hostility towards media sex and violence is growing, as Senator Robert Dole's recent statements show. Internet pressure groups are taking the Exon threat seriously: everywhere one looks, electronic signatures against the Senator's proposals are being collected.

The trouble with the anti-Exon campaign is that some of its members take the word "cyberspace" too literally. They act as if the online world should be independent of ground control.

A good example of this mentality is the case of Jake Baker, a student at the University of Michigan. Baker posted a story on an Internet newsgroup (discussion forum) in which he described, in the first person, how he and another man had raped, tortured and killed a young woman who happened to have the same name as one of his college classmates. Had Baker typed his fantasy on paper and handed out copies in the university cafeteria, his politically correct fellow students would probably have cheered when the FBI came to take him away. But because his chosen medium was electronic, numerous groups have sprung to Baker's defence. With enemies like that, Senator Exon hardly needs friends.

The senator's proposals express an underlying feeling that must be right. A text that it is illegal to print in a book should not be tolerated just because it is typed at a computer keyboard and posted on an Internet newsgroup. Words that are illegal to say on the telephone or in a private letter should not acquire immunity when sent by e-mail.

What is more, there is a case for raising the penalties for breaking the law over the Internet. The anonymity of the Internet encourages people to type things that they would never dream of writing down or saying to someone's face – just as the partial anonymity of the telephone tempts people to be much ruder than they dare to be at meetings.

So Senator Exon's wish to raise the stakes to a $100,000 (£63,700) fine and two years in jail makes sense. But the senator wants to go further still. The first draft of his proposed law tried to pin responsibility for illegal material not just on its authors, but also on the companies that distribute it from bulletin boards to online services, and from Internet providers to telephone companies.

This approach betrayed a lack of understanding of how the online world works. For the Internet is not one medium with a controlling editor and publisher, but many different media, each with a different degree of editorial control. The bill's first draft was therefore rightly shouted down as ludicrous, since it would have forced Internet providers who wanted to keep their hands clean either to close down altogether or to censor everything posted by their clients, including private electronic mail.

The senator's subsequent attempts to amend this provision have served merely to confuse the matter. But the Exon proposals suffer from a more fundamental flaw: they fail to take account of the legal remedies already available against some material on the Internet. Federal and state laws in the US already prohibit the promotion, interstate transportation, or transmission by telephone of obscene material. There are also stringent rules on pornographic pictures of minors, even the possession of which can be illegal.

If these existing restrictions were enforced, the range of offensive material on the Internet would be significantly narrowed. Yet rather than urging more comprehensive enforcement, the Exon scheme is to broaden the definition of what is forbidden.

As well as obscenity, which is not protected under the First Amendment of the US Constitution, Exon wants to outlaw material that is "lewd, lascivious, filthy or indecent". This wider definition could cover all kinds of material, from *Lady Chatterley's Lover* to the screenplay of the latest Tarantino.

The best argument for such restrictions is that Internet hype has attracted attention from children, and given them access to sexual material they would find hard to obtain on video or in print.

But children can be protected without restraining adults' access. An enterprising wife-and-husband team in California has launched a new software package called SurfWatch, which keeps track of several hundred inappropriate newsgroups and allows parents or teachers to restrict Internet access to them, and to update the list of forbidden fruit monthly. Mac users can buy it now; a Windows version is due next month.

If governments wish to legislate, they could impose on Internet providers similar obligations to the proprietors of video or magazine shops. One possibility might be to give providers an obligation to ask their customers whether they are over 18, and to disable the accounts of minors to prevent access to adult material.

As other solutions are found, a Third Law of Media Futures will come into play. That law is: if the fuss over the use of new technology for pornography has died down, then the technology is ready for mass commercialisation.

At that stage, more mundane concerns will take over. For instance, people at work are using the Internet to waste company time. A recent cover story in Information Week magazine asked American computing managers: "Are your workers becoming Net potatoes?" Inside, a poll revealed that 95 per cent of employers said their staff used the Internet for non-work purposes, and 32 per cent believed their staff did so for more than an hour a day. There, rather than electronic porn, lies the real threat.

Tim Jackson can be reached at: *t.jackson@pop3.demon.co.uk*

Senator James Exon: Internet should be made "safe for children"

New delivery – old pictures

The Hulton Deutsch Collection, one of the largest picture archives in the world, is offering digital transmission of its 15m images, as well as its more traditional delivery methods.

The images can be transmitted direct to Apple Macs over an ISDN line. Recipients will also require 4-Sight ISDN Manager software. E-mail requests: *100530,101@CompuServe.com*

Education and the information society

The G7 countries must act to unite the world as technologies converge, writes **Carlo De Benedetti**

The electronic and digital revolution is fuelling a convergence between computers, electronics, telecommunications and media that is already highly visible in the marketplace. This was reflected at a meeting I chaired in Washington recently. It was attended by business leaders from computer, telecoms and media companies in the seven major industrialised countries. And, for the first time, they called for government action to promote construction of the global information society. The meeting made two clear recommendations that will be sent to delegates at this week's G7 summit in Halifax, Nova Scotia.

First: action must be taken as soon as possible to accelerate full liberalisation of telecoms infrastructure and services in all G7 countries by no later than January 1 1998, and to ensure that independent regulatory authorities are established and empowered.

Second: global trade should be promoted by opening up basic telecoms services and infrastructures. The World Trade Organisation should by next April negotiate a successful and balanced accord while agreeing to remove all barriers to trade in the telecoms and information technology sectors.

The business leaders are also urging governments to encourage the production of international operating standards, as well as guidelines for privacy, security and the protection of data and intellectual property rights.

It was recommended that implementation of global pilot projects should be accelerated. In particular, special attention must be paid to education. This is the only way to ensure that the demand for the goods and services of the information society rapidly achieves the critical mass needed to create self-sustaining growth.

In the information society, consumption depends on knowledgeable consumers. If the intelligence and knowledge of potential users is limited it puts a brake on demand. The foundation of the information society, therefore, is widespread intelligence: intelligence in products, in business, in the public sector, and among consumers. This is the primary reason why we are urging governments to take action to improve education systems.

A second reason stems from the fact that digitalisation and the growing use of computers are creating new forms of illiteracy and poverty, even in the most advanced societies. People who lack keyboard skills or do not know how to access information on a CD-Rom run the risk of not having the knowledge they need to do their job. Moreover, computer illiteracy affects every social group: it is not confined to the poorest social classes.

Another danger is that new forms of discrimination may emerge between countries equipped to enter this information-and-knowledge society, and countries that cannot. In Africa, for instance, one out of two people has never used a telephone: but then, Africa has fewer telephones than New York.

Discrimination at social and national levels between "haves" and "have nots" must be avoided. In principle, everyone should have the chance to be a "have" and to take an active part, irrespective of cultural background, in the creation of the information society.

This is why we have stressed the importance of education. Japan's business leaders have decided to organise a Junior Information Society Summit to offer young people and children all over the world an opportunity to discuss and draw up proposals for the development of the information society. Young people must be accorded this right because we are laying the foundations today for the society they will lead tomorrow, and because they often display greater insight and creativity in seeking solutions to the issues of new technology.

Edith Cresson, the European commissioner for research and human resources, intends to launch a special European programme of education and training. I trust that it will meet with approval at the European summit in Cannes at the end of this month.

Today – and not just in Europe – the education field lags seriously behind other areas in the use of new technology. Computers, modems, CD-Roms, networking and so on are a part of daily life in the corporate world and in many public sector bodies. But in schools, where they could be of extraordinary value as teaching aids, they are rarely used.

This is not a question of financial resources. It is a question of policy. Europe spends more than $350bn (£223bn) on education (5.5 per cent of GDP) – not much more than the $250bn it spends just to support the unemployed. More should be spent on education which could lead to job creation. Knowledge and intelligence are the main assets of job-seekers. These assets should be continually enhanced and renewed through permanent education and training programmes.

All these initiatives take time, but business and, above all, governments must realise how important and urgent is the need for committed action.

The information society opens up the prospect of new wealth and broader market participation. When markets grow, democracy grows. But if the transition is not correctly guided, the information society will be mis-shapen and will fuel new conflict and new forms of discrimination or cultural subordination.

Carlo De Benedetti is chairman of Olivetti.

It's the game of the name

Diane Summers reports on registering Internet addresses

When Puma, the sportswear manufacturer, recently came to register its name on the Internet, it found someone else had got there first.

The "domain" name Puma – which would have allowed Internet users immediately to locate the company's address in cyberspace – had already been appropriated by the Power Users' Macintosh Association. Not unreasonably, the association had decided the acronym was snappier for users to type in than the full version of its name, and Puma will now have to settle for a second best, such as Pumasport.

The case has prompted Puma's advertising agency, London-based KHBB, part of the Cordiant group, to contact all its clients suggesting they register domain names immediately, whether or not they have any current plans to use the Internet to provide information on their products and services.

Registration is done in the US through a body called InterNIC – the Internet Network Information Center – and in the UK through the UK naming committee made up of the main service providers, which includes Demon, and Pipex.

These bodies check the Internet to ensure a name is not already in use and weed out any obvious attempts by companies to register the names of their rivals, before allowing registration.

But to register a name, companies must, at the same time, sign up to the Internet – a step some organisations do not yet want to take. KHBB, and a few other agencies which have full Internet connections, are offering to register names on clients' behalf for a flat fee of £250. This includes consulting with the company on the most appropriate domain names, checking on the Internet that the name decided on has not already been taken, and registering with the appropriate authority in the US or UK. The names continue to be owned by the company, but are "held" by the agency until the point when the decision is made to start using the Internet.

According to Simon Law, the account planner at KHBB who has been most closely involved with the domain names issue: "As more and more companies go on to the Net, it gets increasingly likely that another company will have registered the name you want. You need to use a minimum number of letters in your address to make it as memorable and professional as possible. Most people are trying to keep to eight letters or less, so there could be a lot of overlap. Over the next year, as a mass of companies go on to the Internet, it will get even more difficult to get your name registered."

As organisations resort to second-choice names, he believes there will be added kudos in having a perfect domain name. "It will show you were one of the earlier companies on the Internet and you're a forward-thinking organisation," he says

Moving to register a name as soon as possible will also cut down on the possibility of fraud, hostile action by competitors and individuals attempting to make money out of registering corporations' names and then trying to sell them back, he says.

The latter was a particularly hot issue in the US last year after Joshua Quittner, a journalist writing in the computer magazine Wired, managed to bag the McDonald's name from the hamburger giant. Following a flurry of activity by lawyers, McDonald's now has its domain name back, but this and other cases prompted "a bit of a gold rush at the end of last year. People were thinking 'this will be my million. If a company wants its name back they'll have to pay me'," says Law.

No one knows how much has been made in this way by enterprising individuals – like almost everything about the Internet, the legal picture is hazy and settlements have been out of court.

Simon Law's Internet address is: *slaw@cmekhbb.co.uk*

Make a date with news you want

Stephen McGookin describes Individual's customised service

Yosi Amram is fond of romanticising about his company. "Think of us as a computerised dating service," says the president and chief executive of Individual Inc., the Massachusetts-based company he founded in 1989.

Individual matches readers with information by connecting subscribers to material from 500 electronic news providers, which use exclusively-licensed Smart (system for manipulation and retrieval of text) technology developed by Gerard Salton at Cornell University.

The company receives between 15,000 and 20,000 articles a day from wire services, trade periodicals, newspapers, stock markets and government sources. These are categorised into topics and sent to those customers whose news profiles they match.

Individual has a range of products. One called First! is a daily customised news service aimed at corporations. It costs $5,000 (£3,185) a month with LAN (local area network) distribution. HeadsUp and iNews are more personal news services for executives, costing from $40 a month. NewsPage is a World Wide Web service on the Internet (*www.newspage.com*). It is free, although it is set to charge for full-text articles from July 17.

First! stories are delivered in full text via fax, e-mail or as a feed for groupware computer platforms. To ensure that the corporate user profiles remain relevant, First! uses a system called Relevance Feedback, where the reader uses a grading process to label the articles received according to their usefulness. This information is then fed back into the system so that SMART learns about the shifting interests of different readers.

In HeadsUp and iNews, subscribers create their profiles by choosing topics from each day's news briefs. Full-text articles can then be chosen and downloaded.

From September 1, the company is introducing NewsPage UK (*www.newspage.co.uk*) which is focused for readers in Britain and Europe. It provide faster access times than the current worldwide service.

NewsPage has tapped into a potentially lucrative source by putting a sponsor's banners at the opening of each topic category. Readers click on the banner to link to further information. Around 100 of the 1,000 topic slots on the UK version of NewsPage have already been sponsored.

The company says NewsPage UK will be available free of charge until December 1. Then story briefs will be available free, with charges levied for downloads of full-text articles.

The value to content providers of participating – aside from the royalty payments allowing them to leverage their fixed editorial investment – is that they can gain access to incremental readers not in their core market and build their reputation as a news provider, as well as gaining free market research on potential customers.

"News is becoming a commodity," says Amram. "We're not trying to replace core sources that you should be subscribing to anyway; what we do is provide relevant articles from sources you might not otherwise see, or might not be able to afford to subscribe to."

Only 24 Hours from the boardroom

SPORT

KEITH WHEATLEY

Next Friday banker Thomas Bscher will click shut his briefcase and leave Oppenheim Bank's office in Cologne for the weekend. Not just any weekend, for Bscher, co-owner of the bank, is going to Le Mans, along with a quarter of a million other motor racing fans. They will be spectating. Bscher will be driving.

And he will be up against other top businessmen, such as Lindsay Owen-Jones, chief executive of French perfume group L'Oreal, and Moody Fayed, heir to the Harrods store.

These amateur racers will lap the 24-Hour French circuit at speeds of up to 350kph. Bscher's McLaren F1 GTR cost him $1m. A season campaigning around Europe in the GT Global Endurance series costs close to another seven figures. Serious money for a Boys Own fantasy.

So does Bscher have any chance of winning at Le Mans? "If the car holds together we have a good chance of finishing in the first ten," he says, after giving the matter serious consideration.

This 43-year-old father of two small children is no playboy, acting on whim and bravado. Everything in his team is done with due diligence or not at all. English engineer David Price runs the Bscher car. "There's still room for the amateur," believes Price, who has 30 years of experience in car racing, including a good deal of time in Formula One. "We're leading the championship with a driver who spends all week running a bank. So we must be doing something right."

Team Bscher is run exactly like the Porsche, Ferrari and Jaguar works *equipes* with which it must compete. The owner has a professional co-driver, John Neilsen of Denmark, with whom he must accept the roles of both employer and junior partner. "I'm quite happy to see John in a different class from myself. As an amateur you will never be as quick as a professional. On a two-minute circuit he is as much as a second a lap faster than myself," explains Bscher. "John drives as much as possible. Exactly how much depends on pit stops. But at Le Mans I will drive maybe seven or eight hours out of 24. However, we have analysed our previous races and know that we have never dropped a place due to my driving," Bscher adds.

Neilsen and his patron came together under the sign of Maserati. Bscher has collected the Italian marque for years, and raced these classics in historic car series. In 1992 the factory produced a "race spec" supercar, which Bscher coveted for his own. Maserati told the would-be buyer that he had to race the car or it was no sale. In the following year's Maserati series, Neilsen won and Bscher came second.

McLaren's route to building personal racing machines for wealthy individuals was one of serendipity rather than strategy. Its chief engineer Gordon Murray had originally conceived the F1 as the ultimate road car – a market where companies such as Ferrari, Bugatti and Lamborghini had shown that demand was scarcely price-sensitive. So far seven enthusiasts have written $1m cheques.

In recent years, there has been a noticeable, and much-criticised, influx of young drivers into the lower echelons of F1. Fabulously rich Brazilian, Italian or Japanese families know that a fat wallet can buy a drive in a struggling team. It is not an arena for captains of industry. "Nothing could persuade me to do F1," says Bscher. "The safety aspect is too small, the costs too high. It would not be compatible with my business life."

This incompatibility is not just to do with time away from work. Bscher's reasoning is more subtle than holiday rotas. Colleagues and clients want to talk about the McLaren and sports car racing all the time. It has made him a minor celebrity in German banking circles. If he were to aim at F1, Bscher would probably be seen as middle-aged executive indulging a menopausal fantasy. And, anyway, the sports car world is so much more civilised.

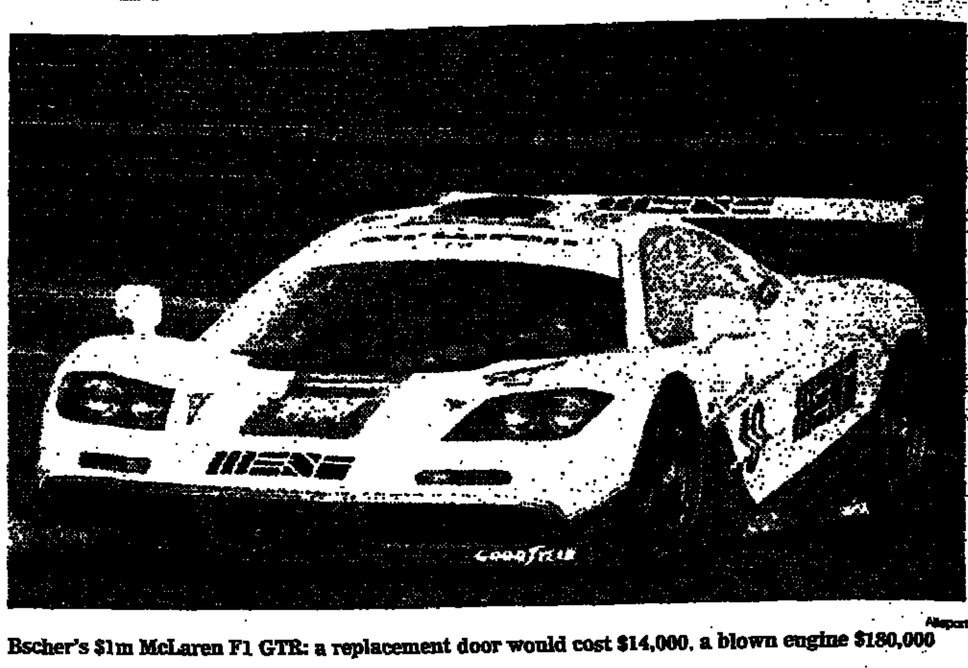
"People still talk to one another in this end of the sport. You go into each other's garages and have a chat and a laugh," explains David Price. "That went out of the window in F1 years ago. And it [sports car racing] is still affordable, compared with $20m a season for a competitive F1 car."

Of course, such things are relative. If the Bscher/Neilsen car has a crash at Le Mans a replacement door will cost $14,000. A blown engine would be around $180,000, although so far the motors have stood up to the factory promise of one per season.

Bscher chooses not to reveal his annual budget, saying only that it is "very, very expensive. Without the sponsorship of West cigarettes for maintainance costs, I could not do this," he says.

For professionals, servicing the amateur dream can be tricky. David Price says: "I've been involved in the past with rich people who want to go racing. Once they realise how much money these things can gobble up they discover they're not as rich as you think they are."

"This car is a million dollars-worth of equipment and you can't look after it in your garden shed. "Thomas is totally realistic about that. He realises that we put a lot of effort in and expect him to do the same. He arrives when we tell him to, does the job, and goes back to the bank. It's as simple as that." With six noughts.

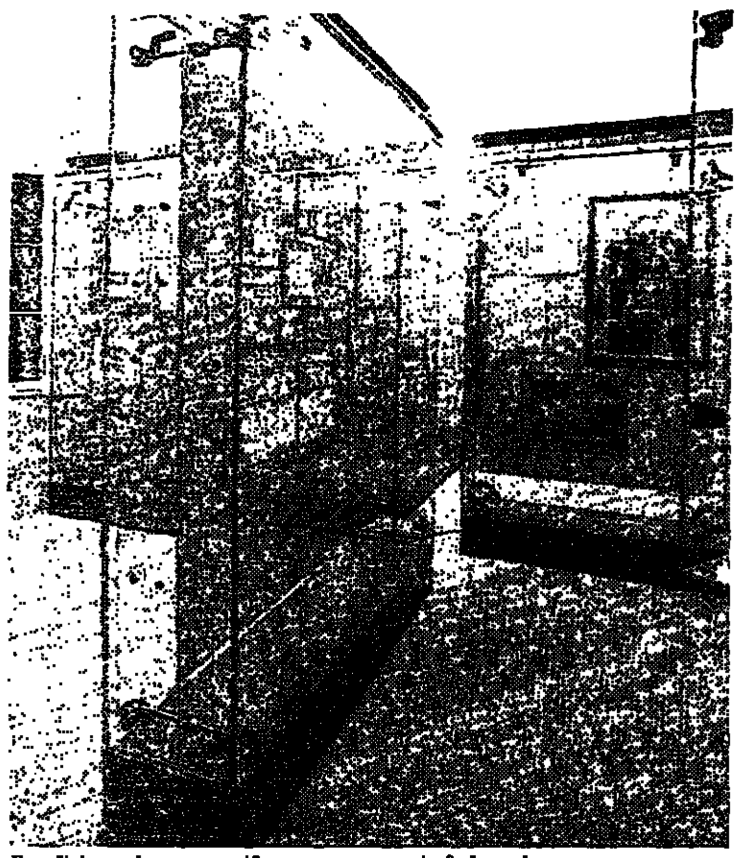


Allsport

Bscher's $1m McLaren F1 GTR: a replacement door would cost $14,000, a blown engine $180,000

Gem of an exhibition in Lincoln's Inn

New gallery adds another dimension to the Sir John Soane Museum, writes **Colin Amery**



Eva Jiricna chose a cruciform arrangement of glass show cases

For anyone even remotely interested in architecture a visit to the Sir John Soane Museum in London's Lincoln's Inn Fields ha always been an eye opener and an insight into a highly creative mind. But a completely new dimension has been added with the opening of a small exhibition gallery which enables the museum to put on regular small displays of its incredible riches.

Sir John Soane died in 1837 and left his house, office and collections to the nation. He built three houses in Lincoln's Inn. Two form the museum and one day the third will be re-acquired as a study centre.

On the ground floor of No. 12, Soane had a dining room and a breakfast parlour. These two rooms have been added to the tour of the museum for the first time. The breakfast parlour has been restored, almost as it was – with a painted ceiling of trellis and leaves. The restoration is based upon an accurate watercolour painted in 1789 by Joseph Gandy.

It was decided to make the former dining room into a small exhibition gallery – a brave decision because there are a lot of sensitive purists around who resist all change and are unaware of the public thirst for architectural knowledge.

Even braver was to commission Eva Jiricna – branded "high tech" – to design the new room. She is best known for her stylish shop designs and restaurants. The gallery was paid for by property company MEPC, which donated £1m for the restoration of the museum and the new gallery, providing the Government matched the donation.

Jiricna evolved a brilliant solution which is as immaculate and careful in its design as anything Soane would have done himself. It is also highly original and very beautiful.

Visitors approach the new gallery through a link passage way which was designed by the museum's restoration architect, Julian Harrap. This is an ingenious series of small stepped spaces with some intricate and ingeniously lighted small show cases to display some of Soane's small objects. It is entirely in keeping with the intricacy of the whole museum, which is throughout domestic, small scale and crowded with an intense display of works of art.

The new Soane Gallery is a very important London attraction because it is one of the very few galleries devoted to architecture. Jiricna was faced with a very difficult design challenge as well as a lot of understandable nervousness about doing anything at all in these sacred rooms. She chose to place a cruciform arrangement of glass show cases in the centre of the room – leaving the Soane walls untouched.

These cases had to be designed to the highest conservation standards and have perfect lighting and humidity controls. They also had to be easily accessible for the changing of exhibitions and, in such a small space, not be subjected to distracting reflections.

It was right to launch the gallery with a display of some of the cream of the collection. It is not generally known that Soane's collection amounts to some 30.000 drawings, including 54 volumes of drawings by the Adam family. There are drawings by Piranesi, Clerisseau, Nash, Wren, Hawksmoor, Kent, Chambers and Dance. There are Italian Renaissance drawings as well, of course, the most remarkable and complete collection of Soane's own works.

This perfect little exhibition is a microcosm of the collection. There are only 45 drawings to look at but they are so well shown that there is time to enjoy each one completely. The selection explores Soane's collecting instincts while also revealing some of the sources of his inspiration. The "North Italian Album" is a 16th century source book of designs for artists and craftsman to use – probably goldsmiths and cabinet makers. This theme continues in the lively drawings by Grinling Gibbons of his designs for decorative works for the royal apartments at Hampton Court Palace.

How fascinating is the design by Sir Christopher Wren for the Royal Hospital for Seamen, which appears to block or remove Inigo Jones's Queen's House from the composition. It is a very French design and is well contrasted in the exhibition with the more mobile design in Hawksmoor's hand for the Great Hall at Greenwich.

To see pages from Sir Joshua Reynolds's sketch book reflects both the interest of that artist in his Italian sources and shows how closely Soane and Reynolds were involved in the infant Royal Academy.

One of the best Robert Adam drawings shows a full-size coloured drawing of a table that was designed for the architect's own use in his rooms at the Adelphi.

The architect George Dance emerges as something of an unsung hero from this show, he was a distinguished artist as well as an architect. His watercolour of a dining room has a lively group of diners at the table.

This opening exhibition will run until September at 13, Lincoln's Inn Fields, London, WC2, and is open Tuesday to Saturday, 10am to 5pm. On the first Tuesday of each month it is open in the evening from 6pm to 9pm.

ARTS

LONDON
The biennial LIFT (London International Festival of Theatre) starts this week and continues until July 9. This year's events come from Algeria, Australia, Bali, Brazil, Canada, China, France, Germany, India, Japan, Mexico, North Africa, Tunisia, and the US. Among the most prominent companies is the Market Theatre of Johannesburg, which this week presents two shows: "Jozi Jozi" (left) at the Theatre Royal Stratford East (opening today), and "The Suit" at the Tricycle Theatre (opening on Thursday).
Comedian Julian Clary (far right) opens in Genet's "Splendid's" at the Lyric Theatre Hammersmith on Thursday.
One of London's great annual rituals - "A Midsummer Night's Dream" in the Open Air Theatre, Regent's Park - opens this Thursday.

SAINT LOUIS
Opera Theatre of Saint Louis gives the world premiere on Thursday of a new opera by American composer Stephen Paulus. Entitled "The Woman at Otowi Crossing", it tells the story of a tearoom owner who foresees the terrifying consequences of nuclear experiments going on around her. Richard Buckley conducts, Colin Graham directs, and Sheri Greenawald sings the title role.

HAMBURG
The Kunsthalle has organised an exhibition of Picasso drawings, from the collection of his daughter Marina. All date from the summer and autumn of 1928, and are taken from sketchbooks in which the artist worked out preliminary ideas for his surrealist sculptures. The show opens on Friday and runs till mid-August.

BERLIN
The Bulgarian-born artist Christo will fulfil one of his most cherished wishes on Saturday when he starts to drape the Berlin Reichstag in cloth. Christo describes the building as a sleeping beauty which needs to be awakened. It will remained covered for two weeks, at a cost of DM10m.

CARDIFF
Twenty-five young singers from around the world will be hoping their voices are in peak condition this week for the seventh Cardiff Singer of the World competition, which begins today. As previous prize-winners have included Dmitry Hvorostovsky and Bryn Terfel, this contest has an enviable track record. There will be five daily heats at St David's Hall, followed by the final at the weekend, with coverage on BBC Radio 3 and BBC2 television.

Brecht with a tin ear

David Murray reviews ENO's new production of 'Mahagonny'

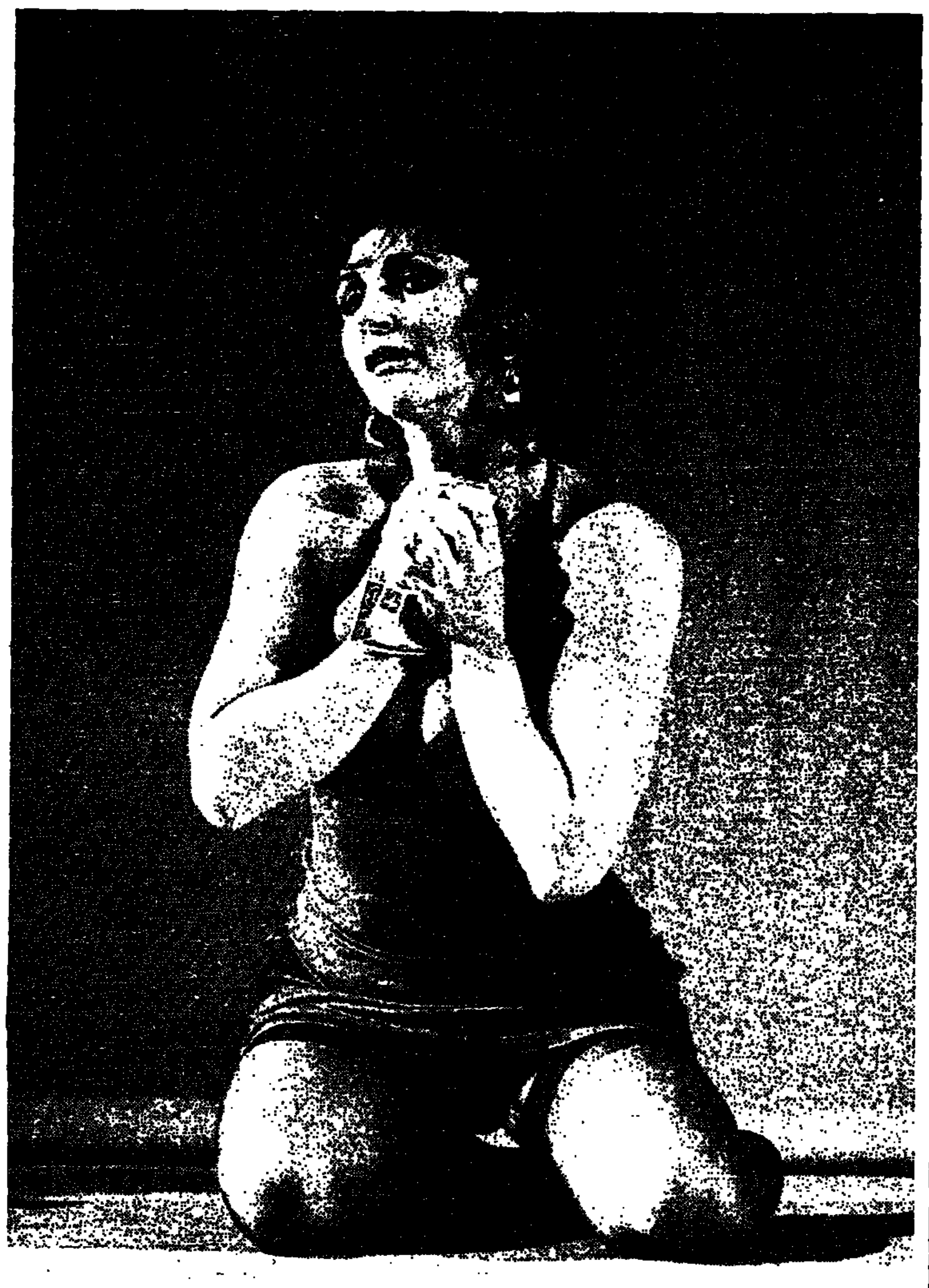
The refrain of my favourite song in *The Rise and Fall of the City of Mahagonny* runs "Und wenn einer tritt, dann bin ICH es / Und wird einer getreten, dann bist's DU": roughly, if somebody gets stepped on, it'll be ME who does the stepping and YOU *who gets stomped*. Kurt Weill set Brecht's verse as an elegant beguine (as in "When they begin the . . ."), but with the personal pronouns truculently stressed - and, indeed, every other Brechtian nuance deftly captured in the music.

In German, it is practically impossible to sing it wrong. But Declan Donnellan's new staging at the ENO employs a translation by Michael Feingold: as Jenny, the leading whore of Mahagonny, Lesley Garrett has to warble "So lie DOWN and get KICKED if you want to; as for me, I would rather stand and KICK" (?!) - which is impossible to sing *right*. Feingold has a tin ear for Brecht and Weill alike; one could multiply painful examples.

It hurts particularly in this "opera", because it is an expansion of their original *Mahagonny-Songspiel* - retaining its format of minimal narrative and distinct *tableaux*, and therefore its foundation in lapidary mock-pop songs, where words and music *must* go hand-in-glove. That partly accounts for the pervasive lack of bite in the ENO's version. Though in its way it is a valiant effort, on the first night it neither gripped nor stung.

Miss Garrett is pert, sexy and musical, but musically innocent; a streetwise "Wie man sich bettet" was never on the cards. As Widow Begbick, the founder and whoremistress of Mahagonny (a nothing-barred Las Vegas on the way to and from the Alaska Gold Rush), Sally Burgess gives us a crisp, smart stereotype where something like a Mother Courage, or at least the Mother Goose of Stravinsky's *Rake*, would be nearer the mark. Brecht viewed decadence as raddled and desperate, not chic.

There is a lot of amplification, strangely little of which helps to get any of the words across. Fortunately the American tenor Robert Brubaker needs no such help. He has a useful resemblance to the younger James Cagney, and his earnest fervour as Jim, the fleeced and ruined hero, gave the show its only real focus. We can look forward to his Don José for the new ENO *Carmen* in September.



Lesley Garrett: pert, sexy and musical as the chief whore

Alastair Muir

The quartet of male losers is completed - in descending order of effectiveness, but they are all creditable - by John Daszak, Richard Angas and Riccardo Simonetti. Better still are Ms Begbick's partners in crime, the black American bass Brian Matthews' Trinity Moses and Adrian Thompson's alarmingly obese Fatty. And yet even they present themselves rather decorously: might Donnellan have taken his cue from the older Weill's remarks about *Mahagonny*?

For different reasons, Brecht and Weill both felt vaguely embarrassed about it later. Brecht referred to it as a "culinary opera" - calculated to please, like good cooking, but not to do much more. Weill came to think it too closely bound to its time (1929), and urged new productions to abjure extravagant caricatures or grotesquery, though those were exactly what ensured the impact of the original "Songspiel". Donnellan has observed Weill's strictures all too faithfully and modestly. When at last the raucous trial-scene takes fire at the start of Act 3, we realise how tame the earlier proceedings have been.

The conductor is Sian Edwards, as usual brisk and unyielding. She draws an excellently bright, brittle sound from her orchestra, but leaves scant room for quasi-pop nuances from her principal singers. Vital thrills are lacking: the imminent typhoon in Act 1 sounded quite inert. She has chosen to omit the "Crane" love-duet (it was added later to the opera - but the opera is what the ENO is performing, not the "Songspiel"); and to reinstate the first version of the yearning "Benares" song, more dismayingly woozy and therefore better. This *Mahagonny* is worth hearing, but not altogether to be believed.

Culture without boundaries

David Edgar considers the new map of the imaginative world

My play *Pentecost* began in that extraordinary spring and summer of 1990, when it seemed the entire youth of Europe was marching, the "Ode to Joy" on their lips, old Soviet army caps at jaunty angles on their heads, through the great yawning gaps in the Berlin wall.

To the west, the national barriers had already fallen, and there were only a few pockets of resistance to clean up before the Delors ideal of a frontier-less, supranational Europe was fully realised. To the east, it was only a matter of time before the new democracies followed the west down the pan-European path. Indeed, was not November 1989 the final victory of European humanism, had not the wall been punched through by at least one of Michelangelo's Sistine ceiling fingers, and would not the former satellites gratefully exchange their failed transnational utopia for an obviously successful one?

Even two years on, things looked very different. Far from the east importing western universalism, the traffic appeared to be the other way, with Bavaria, Catalonia and Lombardy eagerly emulating the emergent separatism of Slovenia, Slovakia and the Baltic states. And instead of being a temporary festivity, the ceremonial ornaments of new nationhood were hardening into real statehoods with real borders, both external and internal (virtually the first act of any new east European state appeared to be the banning of the language of its own minorities).

The concept of Europeanness itself had changed from one of inclusion to one of exclusivity, less about who you were than what they were not. Even in 1990, it was clear travelling through Yugoslavia that "Europe" was a place that stopped 20 kilometres to the east of wherever one happened to be: by Christmas time in Prague, it was clear that even liberal Czechs had drawn thick black borders between themselves and Slovaks, gypsies, and even (sometimes) the Moravians. The conversion of Europe from an assertion to a denial of enlightenment ideals seemed an urgent subject for a drama.

Happily, my sobering journeys through the centre and south-east of the continent provided a number of rich metaphors. First, there was the phenomenon of the restitution of state property to its former owners, with its anecdotes of rock musicians discovering they owned car factories, and Pennsylvanian expatriates inheriting great tracts of the Ukraine. Second was the consequential history of so many European buildings, as they zigzagged from religious to secular use, from palace via parliament to nightspot, and from the prosaic to the unthinkable.

And then finally, in a monastery near Skopje in Macedonia, I saw some 12th century frescoes of the Crucifixion that teetered so tantalisingly on the brink of Giottan naturalism that is was impossible not to wonder whether the beginnings of the renaissance, the starting shot of the great relay race from medievalism via the reformation and the enlightenment to the scientific revolution, might have begun not in Europe's heartland but on its eastern edge.

From this came the idea of a church in an unnamed south eastern European country, with an eminently checkered history, behind one wall of which is a hitherto unknown fresco that if painted when it seemed to be could revolutionalise the history of western art.

Added to that was a bitter contest among art historians, priests and politicians for both literal and historical ownership of the painting, culminating in an invasion by those forces from the east and south on whose "otherness" the very concept of European culture depends.

Running under all of which was (and I hope is) a dialectic accepting the failure of the universal Communist utopia, but questioning whether the only alternative is a return to national and religious fundamentalism. Communism in essence sought to reveal the universal in humankind by stripping off the bark of past tradition, and clothing the subsequent naked trunks in uniform. The new nationalisms see history as a fancy-dress box from which they can plunder the liveries of those old social, cultural and ethnic hierarchies they seek to re-establish. I wanted to posit a different way of looking at culture: one which acknowledged that all cultures are fundamentally hybrids, developing in response not just to the urge for continuity but the exigencies of change.

If clothing is one metaphor of this, then language is another. By attempting to construct a system free from the irrational detritus of the past, communism was a kind of social Esperanto. By contrast, its successors are attempting to re-establish barriers between languages that have long since mingled: in Minsk and Zagreb linguistic commissions solemnly construct neologisms for aeroplane and print-out with all the zeal of western governments combatting Swinglish and Franglais.

But in fact, this enterprise is doomed. The real contest in the world is not between Belarus and Russian, nor even Croatian and Serbo-Croat, but between mono and bilingualism. Which is why the English that is now the most spoken language in the world is not our English, or even Hollywood's, but rather that huge, rich casserole of dialects, patois, pidgins and creoles that makes up English as a second language, English not as a club card but a passport.

Impure, mutating, incomplete, corrupt: ESL is a vivid metaphor of how cultures actually relate, in the real world, away from the hermetic fantasies of the nationalists. It is not via ancient tradition but freer travel that we came, saw and borrowed Moorish dancing from the Spaniards (corrupting it to "Morris"). Freud based an entire theory of childhood recollection on a mistranslation of Leonardo's notebooks. The English of Romanians is influenced by the popularity of bootleg videos of Dave Allen, Rugby league and *The Onedin Line*. And as Robert Graves pointed out in his assemblage of the Greek myths, the climax of the Theseus story is based on a creative misreading by a storyteller of an ancient icon of a ship with a black sail.

So the Pakistani sisters Salma and Sabina (who sing Abba songs in Hindi), and a legendary Welsh-speaking Cardiff reggae band (rejoicing in the title Rasta-Cymru) are but the latest manifestations of a tradition of cultural hybridity which stretches back to the construction, via French gothic naturalism and Byzantine iconography, of what we now call the Italian renaissance.

Properly, I considered many of these notions in southern Italy, where Greek temples, Norman forts and Moslem turrets attest to ancient interminglings, and Goethe's diaries, Wilde's last journeyings and plaques to Ibsen to more modern ones. With Paestum, Pompeii and Capri in easy reach, the Bay of Naples is now both a heritage attraction for the vacationers of northern Europe and a contested point of European entry from points south and east. It was a good place to begin a play about the dialogue between cultural and actual migrations.

**David Edgar's 'Pentecost', which launched the Royal Shakespeare Company's Young Vic season, is the springboard for the RSC's European Festival, featuring poetry, music and debate. The festival runs at the Young Vic from July 22-29.*

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERTS
Het Concertgebouw Tel: (020) 671 8345
● Royal Concertgebouw Orchestra: with violinist Jaap van Zweden. Zoltan Peskó conducts Rihm and Stockhausen; 8.15pm; Jun 17
GALLERIES
Beurs van Berlage Tel: (020) 626 0284
● Salvador Dali - Sculptures and Illustrations: retrospective of sculptural work from the 1930's onwards; to Aug 20
OPERA/BALLET
Het Muziektheater Tel: (020) 551 8922
● Die Meistersinger von Nürnberg: by Wagner. Hartmut Haenchen conducts the Netherlands Philharmonic Orchestra and soloists Jan Hendrik Rootering and Siegfried Vogel; 5.30pm; Jun 13, 16

BERLIN

CONCERTS
Konzerthaus Tel: (020) 309 21 02/ 21 03
● Berlin Symphony Orchestra: Kurt Sanderling conducts Beethoven and Mozart; 8pm; Jun 15, 16, 17
Staatsoper unter den Linden Tel: (030) 200 4762
● Berlin State Orchestra: with pianist Daniel Barenboim, soprano Laura Aikin and mezzo-soprano Katharina Kammerloher. Pierre Boulez conducts Wagner, Bartók and his own compositions; 4pm; Jun 17, 18 (11am)
OPERA/BALLET
Deutsche Oper Tel: (030) 34384-01
● Der Rosenkavalier: by Strauss. Conductor Jiří Kout, production by Götz Friedrich; 7.30pm; Jun 13, 15
● Onegin: music by Tchaikovsky. Premiere at this venue, choreographed by John Cranko, produced by Reid Anderson and Jane Bourne; 7.30pm; Jun 14, 17 (5pm)
● The Masked Ball: by Verdi. Conducted by Rafael Frühbeck de Burgos/Sebastian Lang-Lessing, produced by Götz Friedrich; 7.30pm; Jun 12

BRUSSELS

CONCERTS
De Munt/La Monnaie Tel: (02) 218 2211
● Juliane Banse: soprano accompanied by pianist Wolfram Rieger; 8pm; Jun 16

FRANKFURT

OPERA/BALLET
Oper Frankfurt Tel: (069) 23 60 61
● Lady Macbeth of Mtsensk: by Shostakovich. Conducted by Guido Johannes Rumstadt and produced by Werner Schroeter. Soloists include Valeri Alexejev, Ryszard Karczykowski and Christine Ciesinski; 7.30pm; Jun 15, 18 (3.30pm)

GENEVA

OPERA/BALLET
Grand Theatre de Geneve Tel: (022) 311 2211
● Orphee: by Gluck. French adaptation by Pierre Louis Moline. Conducted by Jeffrey Tate, produced by Andreas Homoki. Soloists include Anne Sofie Von Otter, Barbara Bonney and Elizabeth Futral; 8pm; Jun 12, 15, 18

LONDON

CONCERTS
Barbican Tel: (0171) 638 8891
● London Symphony Orchestra: with soprano Cheryl Studer and cellist Tim Hugh. Andre Previn conducts Mozart, Beethoven and Strauss; 7.30pm; Jun 15
● Royal Philharmonic Orchestra: with violinist Jonathan Carney. Yehudi Menuhin conducts Mozart, Takemitsu and Brahms and Sir Peter Maxwell Davies conducts the London premiere of his "Time and the Raven: United Nations Overture", written for the 50th anniversary celebrations of the United Nations; 7.30pm; Jun 14
Royal Festival Hall Tel: (0171) 928 8800
● Grand Classical Gala: the National Symphony Orchestra with pianist Philip Dyson and the Kentish Opera Chorus. David Coleman conducts a selection of favourite classics; 8pm; Jun 18
● Itzhak Perlman: with the Philharmonia Orchestra. Yoel Levi conducts Brahms' "Academic Festival Overture" and "Violin Concerto" plus Mozart's "Violin Concerto No.3"; 7.30pm; Jun 13
● Itzhak Perlman: Yoel Levi conducts Bernstein, Barber and Tchaikovsky; 7.30pm; Jun 15
● New York Philharmonic: Kurt Masur conducts Strauss' "Metamorphosen" and Beethoven's "Symphony No.3"; 7.30pm; Jun 16
● Vanessa-Mae: violinist with the English Sinfonia. Oliver Gilmour conducts Schubert, Bruch, Arnold and Schumann; 7.30pm; Jun 14
GALLERIES
Barbican Tel: (0171) 638 8891
● George Rodger: retrospective of approximately 250 pictures which includes pictures taken during WWII; to Aug 27
Riverside Studios Tel: (0181) 741 2251
● Yevgenny Khaldei: war photographs by Khaldei who was employed by the Tass news agency during the second world war; to Jun 17
OPERA/BALLET
Royal Opera House Tel: (0171) 304 4000
● Billy Budd: by Britten. A new production conducted by Robert Spano and directed by Francesca Zambello. Soloists include Graham Clark, Francis Egerton, John Duykers and Rodney Gilfry/Peter Coleman-Wright; 7.30pm; Jun 13, 15
THEATRE
Donmar Warehouse Tel: (0171) 369 1732
● Insignificance: written and directed by Terry Johnson. Cast includes Frances Barber, Alun Armstrong, Jack Klaff and Ian Hogg; 8pm; (not Sun)
National, Cottesloe Tel: (0171) 928 2252
● Richard II: by Shakespeare. Deborah Warner's new production featuring Fiona Shaw as the king; 7.15pm; Jun 12, 13, 14 (2pm)
National, Lyttelton Tel: (0171) 928 2252
● Absolute Hell: by Rodney Ackland, directed by Anthony Page. Bohemian life in a London drinking club in 1945. Cast includes Judi Dench and Greg Hicks; 7.30pm; Jun 12, 13 (2.15pm)
National, Olivier Tel: (0171) 928 2252
● Under Milk Wood: by Dylan Thomas. Directed by Roger Michell and stars Robert Blythe; 7.15pm; Jun 12, 13 (2pm), 14

MUNICH

GALLERIES
Bayerische Staatsgemäldesammlungen Tel: (089) 23 80 50
● Naples: works produced between 1988-90 by the action artist Ernest Pignon-Ernest that are influenced by 17th century Neopolitan artists such as Stanzione, Caravaggio and Ribera; to Jun 18 (not Sun)

PARIS

CONCERTS
Châtelet Tel: (1) 40 28 28 40
● The orchestra and chorus of Les Arts Florissants: with soprano Susan Bullock, alto Susan Bickley, tenor Mark Padmore and Bass Thierry Felix. William Christie conducts Beethoven; 8pm; Jun 16
Champs Elysées Tel: (1) 49 52 50 50
● National Orchestra of France: with soprano Monica Pick-Hieronimi, mezzo-soprano Nadja Michael, tenor Thomas Dewald and bass Michael Volle. Charles Dutoit conducts Beethoven's "Symphony No.1" and "Symphony No.9"; 8pm; Jun 14, 15
GALLERIES
Louvre Tel: (1) 42 60 39 26
● Hans Memling: exhibition of paintings by the Dutch master to commemorate the 500th anniversary of his death; to Aug 14
OPERA/BALLET
Opéra National de Paris, Bastille Tel: (1) 47 42 57 50
● Les Capulet et les Montaigu: by Bellini. Conducted by Bruno Campanella and produced by Robert Carsen. Soloists include Jeffrey Wells, Cecilia Gasdia and Jennifer Larmore; 7.30pm; Jun 12
THEATRE
Théâtre de Nesle Tel: (1) 46 34 61 04
● Faith Healer: by Brian Friel. Alcoholic faith healer in Ireland. Cast includes Les Clack, Patricia Kessler and William Doherty; 8pm; to Jun 14
● Zoo Story: by Edward Albee, directed by Bob Friel. Part of the English language theatre festival; 9.30pm; to Jun 24

WASHINGTON

GALLERIES
National Gallery Tel: (202) 737 4215
● Piet Mondrian: exhibition of 147 works on the 50th anniversary of the artist's death; to Sep 4
THEATRE
Kennedy Center Tel: (202) 467 4600
● Angels in America: Perestroika. Part Two of the Tony Kushner award-winning play about politics, sex and religion. Stars Jonathan Hadary; 7.30pm; to Jul 9 (not Mon)

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Shakespeare didn't need a subsidy

MICHAEL PROWSE on AMERICA

There is no surer way of annoying left-of-centre cultural elites than by proposing cuts in funding for the arts. Democrats have reacted with predictable anger to calls from congressional Republicans for the phasing out of subsidies for public television and institutions such as the National Endowment for the Arts.

I can understand the anger because I benefit from cultural subsidies. The only US television I find bearable is the publicly funded channel. I get pleasure from many other subsidised institutions such as Washington's superb National Gallery of Art, which caters mainly for affluent, educated whites yet charges no admission fee. I am a beneficiary but I do not think the subsidies can be justified.

People often claim the arts would fall into decrepitude if subsidies were abolished or greatly reduced. This is nonsense. You only have to think of the conditions under which most of the art we revere today was created to grasp the irrationality of such fears. It was only with the rise of the welfare state 50 or so years ago that British and US governments began to subsidise the arts lavishly.

For most of human history, painters, composers and writers were either supported by individual patrons or produced for "the market." The miraculous works of artists such as Shakespeare, Titian and Haydn found a market even though per capita incomes in their day were minuscule by our standards. Great art found buyers, in other words, even though communities – judged by our standards – could not afford the necessities of life.

There are more potential patrons of art alive today – and richer patrons at that – than at any time in history. People are better educated and more affluent than ever before. It is thus absurd to argue that art must be dependent on public largesse when it flourished in less propitious times. But suppose, for the sake of argument, that the sceptics are right. Suppose the arts were to collapse following the withdrawal of subsidies. That would mean nobody was willing, voluntarily, to pay for the products or services of artists. In that case, the arts ought to go into decline.

Government subsidies for the arts are not just unnecessary: they are also potentially harmful. It is notoriously difficult to judge the quality of the art of one's own period, if only because the artists that posterity will judge great are often still unknown. Ernst Gombrich, the art historian, once pointed out that an eager critic in 1890 would probably have been ignorant of the work of Van Gogh, Cézanne and Gauguin. Yet with this proviso, it still seems likely that the second half of the 20th century will be rated a barren period for the arts. It is not a coincidence that this half century also saw a mushrooming of arts subsidies.

Public funding is pernicious because it creates an artificial barrier between the artist and his public. The bureaucrats who administer grants represent the producers of art, not the consumers. They have a pot of tax revenue at their disposal and take delight in supporting "progressive" works even when popular demand for such products is nil. This is because the peer pressure that influences their decisions is largely that of "experts" – the artists themselves and the critics who swim in their wake.

The artificial market for art created by public subsidies can promote a disturbing arrogance in artists. It encourages the delusion that any form of self-expression is art. I recall listening to a most unappealing modern work by a minor US composer. Afterwards, I asked him whether he felt it was important to give audiences pleasure. Did he worry that his compositions were inaccessible? He seemed baffled by the questions. He was the artist, the winner of grants and acclaim. The impression he left was that the public should learn to appreciate him, not vice versa. It is hard to imagine Haydn taking this line with his employer, Prince Esterházy. Yet did Haydn's need to satisfy the preferences of an individual patron result in servile music?

The case against direct subsidies for the producers of art is thus powerful. But it may appear that a stronger argument can be mounted for subsidies for the consumers of art. Sceptics may concede that the arts prospered mightily in past centuries, but will note that only a tiny fraction of the population possessed the means or education to appreciate them. In our democratic times, governments should surely try to widen access to art by providing "arts vouchers". Consumers could use them, for example, to gain discounts on opera tickets and cheap admission to museums and galleries.

Vouchers would promote the arts in a non-distortionary fashion: consumers' purchasing power would be increased but their preferences – rather than those of officials – would determine which artists prospered and which failed. And if the vouchers were means-tested, the great inequity of present arts subsidies – the fact that the benefits go disproportionately to the affluent – would be ended.

Arts vouchers may seem a good idea. The trouble is that bureaucrats would have to decide what constitutes art. I would allow the use of vouchers to purchase Bach and Beethoven recordings; but I would exclude John Lennon. However, this is a personal judgment. Others would disagree. In practice it would be foolish to restrict the use of arts vouchers: they would thus become just another form of income support.

I conclude that governments should provide no subsidies whatever for the arts. Any subsidies represent a judgment that all taxpayers should be required to support certain artists, living or dead, however much they may abhor their work. Such coercion is indefensible in a free society. Government should focus on tasks that only it can perform.

The vehicle maker will have to remain nimble to stay competitive, writes **Haig Simonian**

A starring role for Land Rover

When Sylvester Stallone bursts on to cinema screens shortly as the gun-toting law enforcer "Judge Dredd", only one motor vehicle will have survived into the garish, crime-ridden 21st century world depicted in the comic strip turned feature film. The future, according to the movie, will be full of sci-fi Land Rovers.

It is not just in fiction that Land Rovers have a cult status. So strong is demand for Land Rover's products that the company, a subsidiary of Rover of the UK, now owned by BMW of Germany, has taken on almost 2,200 employees since 1994 – a 20 per cent increase – to raise output.

The biggest increases in demand are for the Range Rover and Discovery. Production of the new Range Rover model introduced last year is being stepped up by a fifth to 620 a week at the end of this month, while a third shift is about to be added to the Discovery assembly line. Production of the utilitarian Defender range – the workhorse for farmers and armies around the world and once Land Rover's only model – has also risen, though by a far smaller margin.

Last year, European motorists bought 300,000 four-wheel drive vehicles (known as sports-utilities), according to Automotive Industry Data, a market monitoring company. Sales are expected to reach 500,000 units by the year 2000. Land Rover's growth has reflected that popularity. Its sales are expected to exceed 110,000 vehicles this year, compared with 95,000 in 1994.

The original Range Rover virtually created the sports-utility market when it was introduced in 1970. Since then, it has been progressively improved, making it a competitor for luxury marques such as Jaguar, BMW and Mercedes.

In 1989, the Range Rover was joined by the Discovery, a model geared towards middle-to-upper income buyers which has become Land Rover's biggest seller. Even the workaday Defender has been moved up-market, possibly to make way for a smaller, lower-cost vehicle beneath it. Last year the company made 54,500 Discoveries, 18,000 Range Rovers and 22,300 Defenders.

But as another 400 workers join the company this month, analysts are wondering whether demand will continue to grow for sports-utility vehicles that cost more than luxury saloons – the Range Rover, for example, costs £43,950 ($69,805). The sports-utility makers face growing competition from "multi-purpose vehicles" (MPVs, also known as people carriers) that seat seven or eight adults with car-like handling.

People carriers offer many of the advantages of sports-utilities, such as a commanding driving position and large load capacity, at a lower price. Moreover, their styling is as striking and individualistic, while they are probably more practical for families, which do not need the sports-utilities' off-road capabilities. They are also cheaper to run.

The MPV market, inaugurated by Renault's Espace, is thriving in Europe with many car companies launching their versions. Mitsubishi has its Space Wagon and Space Runner, Nissan the Serena, Toyota the Previa and Volkswagen the Caravelle. A new MPV, developed jointly by Ford and Volkswagen, makes its debut this year; Honda is also about to launch one; and the fruits of a Fiat and Peugeot-Citroën joint venture are already to be seen on continental European roads.

But even within the sports-utility sector, competition is hotting up. Toyota is believed to be planning a luxury version of the Land Cruiser for sale in the US under the Lexus brand. Mercedes Benz, which has failed to match Land Rover's success with its boxy Geländwagen, will start making a sports-utility in its new US plant in 1997. Even Ford is thinking about entering the sector via Jaguar or its up-market Lincoln subsidiary.

In spite of its success, Land Rover is a relatively small car-maker in international terms. In 1994, Chrysler's Jeep subsidiary sold almost twice as many of its Cherokee – roughly equivalent to the Discovery – as Land Rover's total vehicle output. Toyota and Nissan are also bigger producers of four-wheel drive vehicles.

Land Rover rejects the criticism that demand for four-wheel drive cars is a passing fashion. "What's wrong with buying a car for its image?", asks Mr Colin Walkey, head of external relations. "People like to be seen in Range Rovers, even if they never leave the city."

Land Rover also points out that its sales are spread across a wide range of models, and says its production lines have been modernised to cope with changing consumer tastes. As the company has returned to profitability in recent years, it has ploughed earnings back into its main production plant in the UK at Solihull in the Midlands to increase the number of model variations it can accommodate. Improved labour relations are among the factors that have made this possible.

Land Rover's vehicles, furthermore, are much more widely available than in the past. In the 1970s, sales were concentrated in poor, developing countries, which snapped up Defenders almost as fast as the company could make them.

Today, the company's biggest markets are rich, industrialised countries such as the US. The Range Rover, introduced into the US in 1987, opened the door to the American market, and the Discovery, launched there seven years later, has built on that initiative with expected US sales this year of 15,000.

Japan and continental Europe are also valuable markets. The new models have further increased sales in established markets such as Switzerland, France and Italy, where Land Rover has traditionally done well.

Profits have also risen. Although Land Rover's figures are not quoted separately from the Rover parent company, analysts think it made about £100m before tax in 1994.

This contrasts sharply with the company's record in the mid-1980s, when the debt crisis in the developing countries led to a steep fall in sales. Production plunged to 33,799 in 1986 as foreign armies, governments and entrepreneurs reduced their budgets.

The trauma of the mid-1980s lies behind the current warnings that Land Rover could face a renewed crisis if it becomes as dependent on sales to the image-conscious urbanites as it was on sales to developing countries a decade ago.

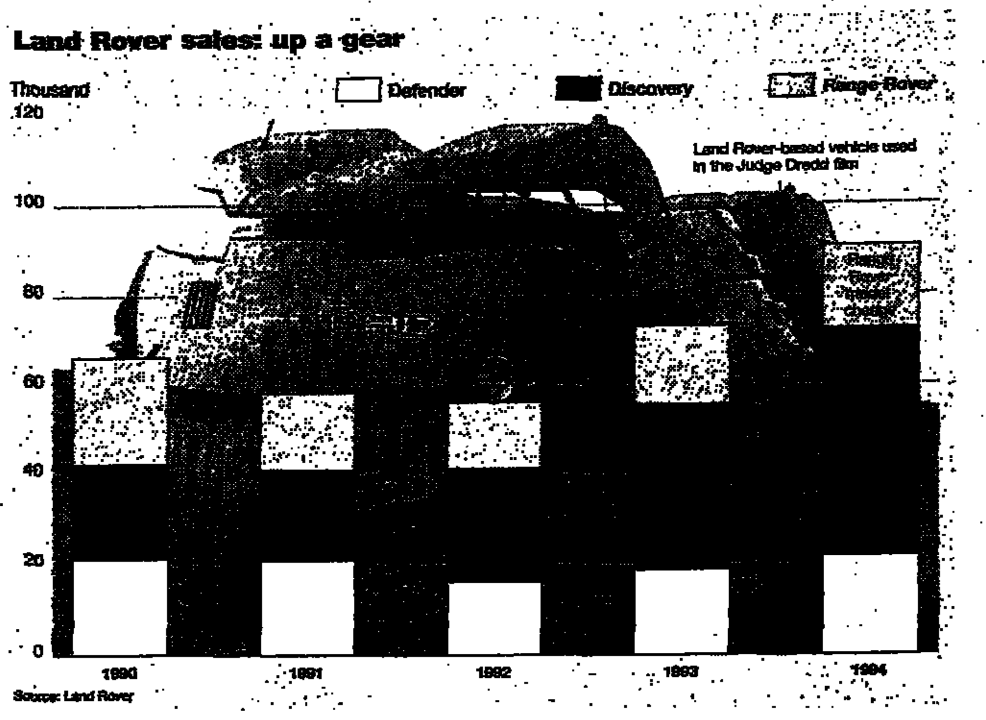
"The company's products have become fashion items, not transport vehicles," warns one stockbroker who analyses the motor industry. "People buy them for what they signify, not what they do."

Others see the trend as an advantage rather than a risk for Land Rover. "People want something a bit different at a time when cars look and feel increasingly alike," says one analyst. He argues that the rising demand for sports utilities reflects the car market's increasing segmentation, which has already prompted many manufacturers to bring out niche models, such as convertibles.

Such confidence suggests sports-utilities are here to stay. If so, the challenge for Land Rover will not be the disappearance of its niches, but the ability to respond quickly to fluctuations in demand for different models. That will take highly flexible manufacturing systems and require the continuing co-operation of the company's workforce.

The futuristic styling of Judge Dredd's vehicles may be a flight of fancy, but Land Rover will have to stay nimble if it wants to remain competitive into the 21st century.

Land Rover sales: up a gear



Source: Land Rover

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). Translation may be available for letters written in the main international languages.

WTO objectives hostile to EU integration

From Mr Harry Shutt.

Sir, Professor Jagdish Bhagwati (Personal View: "The high cost of free trade areas", May 31) is right to point out the inconsistency involved in promoting free trade areas while yet purporting to uphold the principle of non-discriminatory, multilateral trade which is central to the General Agreement on Tariffs and Trade/World Trade Organisation model.

Yet in concluding that the latter should be sustained at the expense of further moves to create free trade areas he only serves to emphasise an inherent weakness in the concept of non-discrimination, namely that it is inimical to economic integration between groups of countries. This despite the fact that article 24 of the Gatt actually favours the creation of customs unions and free trade areas on the grounds that they increase freedom of trade through closer economic integration between the parties concerned.

As shown by the case of the EU, the logical extension of this argument is that freedom of trade is maximised where there is progressive movement to economic, monetary and ultimately political union among co-operating states. In such a union, it is true, the attainment of a single market is only possible if disadvantaged regions within it are granted subsidies and transfers to offset their lack of competitiveness – as the history of both the EU and the US suggests.

Yet this should only worry those who are afraid to recognise that genuinely free trade is a pipe dream.

Rather than opposing the formation of such unions or regional groupings, the WTO should assume the role of maintaining harmony between them and ensuring that they do not develop into mutually antagonistic trading blocs. Yet unless it also broadens its remit to take account of the whole range of factors governing international economic relations – abandoning the absurd pretence that such considerations as environmental and labour standards are irrelevant – it will fail to be taken seriously in this or any other role.

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Utilities' main priority being ignored

From Mr James Skinner.

Sir, It is sadly typical of our generally cock-eyed approach to the economics of resource management that the policy debate on the utilities focuses largely on who should receive the juiciest cash handouts – directors, employees, shareholders or consumers.

The utilities are responsible for managing two of our most precious scarce resources – water and electricity. Their first priority should be to invest in conserving those resources while supplying the most efficient services possible to consumers. It is now common knowledge that inefficiency causes massive waste of both water and electricity and yet investment in modernising the delivery and utilisation of water and energy supplies is minimal.

The whole nation would benefit if, instead of dissipating surplus funds in handouts and share purchases, the utilities invested in improved technology that provides better service with less waste. Meanwhile, the Energy Saving Trust, formed precisely for that purpose, stands impotently by while the utilities squander their surpluses.

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Tread more softly with this test

From Mr Muir Bonnington.

Sir, I refer you to the article about the 360° appraisal test ("Turning the tables", May 31). The 360° test is the wheel on which beliefs are broken.

Some of those who have been subjected to its ministrations view it as a modern-day successor to the Inquisition. Paradoxically, like the chairman mentioned in your article, they often are the very ones who have the most to gain from its findings.

Rather than denying their validity or attacking the method, their time would be better spent reflecting on the information it provides.

However, I believe those who carry out the tests also have a continuing responsibility. Often they underestimate the psychological disturbance or stress created when the evidence produced shows the person's self-image is far removed from their colleagues' view.

This stress is unnecessary and can be avoided.

It is bad for both the well-being of the individual and reputation of the 360° test. Perhaps the testers would be wise to reflect on the lines from W.B. Yeats: "I have spread my dreams under your feet; Tread softly because you tread on my dreams."

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Pressure for audit practice changes

From Mr John Wosner.

Sir, Mr Ian Brindle would have us believe that the only issue arising out of the appointment of Price Waterhouse as auditors to the RAC is the relative efficiency and effectiveness of the audit service offered by the accounting firms invited to tender (Letter, May 25). The content of his letter, however, raises more questions than it answers. For example:

1. Mr Brindle says that "every year PW spends tens of millions of pounds researching and developing better ways of auditing". He does not explain how that huge annual expenditure is recovered from a materially lower audit fee, especially as, by implication, he suggests that Stoy Hayward does not incur software expenditure on such a large scale.

2. Mr Brindle denies the existence of a link between an audit appointment and the opportunity to sell lucrative consultancy assignments in a world where "consultancy projects go out to tender and the best tender wins". He does not explain the undoubted success of incumbent auditors in winning such consultancy contracts as evidenced by information in the published accounts of all public companies. The opportunity to sell non-audit services by an incumbent auditor has always been accepted by accounting firms as being beneficial to client and auditor. However it is only in recent years that the link has become such a dominant factor in audit pricing.

3. Mr Brindle maintains that his firm's software is far more effective than the "busloads of articled clerks" that used to do the work. Yet he does not explain how it is that Price Waterhouse annually recruits around 800 students – a not substantially different figure from that of five years ago.

The only issue of public importance arising out of the RAC audit tender is whether in the 1990s the auditors of public interest companies are independent and seen to be independent. That remains as fundamental today as it was when the office of auditor was introduced into company law in the 19th century.

The question is whether the commercial pressures on big accounting firms to sell non-audit services has become so material as to have eroded that independence. Unfortunately, the diminished standing of the accounting profession and the public loss of confidence in the value of the audit suggest that changes will need to be imposed if they are not adopted voluntarily by the profession.

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FINANCIAL TIMES

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A pragmatic Mr Chirac

A "breath of fresh air" is how Mr John Major described his weekend talks with Mr Jacques Chirac on the future development of the European Union. The UK prime minister seemed confident that the new French president would inject a note of realism into preparations for the 1996 intergovernmental conference (IGC).

His optimism was based on Mr Chirac's signal that he wants to broaden co-operation with the UK, and is willing to soften criticism of Mr Major's stance on economic and monetary union. The Franco-German axis, Mr Chirac added, was a "necessary, but not sufficient" condition for the development of the Union: "We will not build Europe without Britain." So, if this first meeting proves an accurate guide, Mr Major has found a sympathiser, if not an ally, in the Elysée.

Mr Chirac is genuine when he describes his understanding of British doubts over monetary union. The Gaullist president knows his Eurosceptics. Back in 1979 he fulminated that Europe threatened to reduce France to a vassal state. More than a decade on, he supported the Maastricht treaty, but indicated subsequently his concern that it might restrict his room for manoeuvre in tackling France's high unemployment. His suggestion at the weekend of a study of the impact of a partial monetary union reflects a parallel concern that France might be put at a competitive disadvantage if others stay outside a single currency.

France and Britain share some ideas on reinforcing defence co-operation, a likely focus of the IGC. There are differences, but their joint experience in Bosnia has bonded the two countries together. "British soldiers under French generals, and French soldiers under British generals – that is the real European defence co-operation," Mr Major remarked.

There was common ground also on institutional reform. Mr Chirac said they wanted to see the Council of Ministers reinforced relative to the European Parliament and Commission. And France is not looking for a large-scale extension of majority voting. Germany takes a more overtly federalist line on both issues.

It is not surprising that Mr Major, under siege from the Eurosceptics in the Conservative party, welcomed so warmly such pragmatic rhetoric. The prime minister would be advised, however, not to interpret Mr Chirac's words as supportive of the almost entirely negative approach the UK has adopted thus far towards the IGC.

The French president has offered a hearing for any constructive proposals the UK might table. But France has not abandoned its support for a deepening of the Union. Mr Major meanwhile is in danger of becoming a prisoner of the Tory Eurosceptics.

If he heeds demands – underlined again at the weekend by Mr Michael Portillo, the Eurosceptic employment secretary – to treat the IGC as little more than an opportunity to wield the national veto, this latest entente will prove short-lived.

Japan in a vice

The Bank of Japan insists that the economy's gradual recovery remains on course. Its latest quarterly survey of corporate expectations, released on Friday, provided some very modest grounds for optimism. But the country's investors found little to suggest that the country is about to grow out of its problems. Neither should the Japanese authorities.

The Bank's trumpeting of the survey, which showed a rise in corporate confidence last month, was understandable. Good news about Japan has been difficult to find in recent weeks. The core consumer price index was lower in May than it was a year earlier: its first move into negative territory in the current cycle. And domestic spending, which showed signs of recovering last year, has also dropped off sharply. More broadly, the continued anaemic state of domestic demand offers little hope that it will be able to rescue the recovery from the effects of the yen's 14 per cent appreciation against the dollar since January.

That the Tankan survey can find a rise in the number of companies reporting "favourable" business conditions, under such circumstances, provides yet another testament to Japanese producers' resilience. But there is a danger that the finding will be taken as an excuse to defer, yet again, the measures needed to avert a further downturn.

A cursory glance at the state of *financial market sentiment* ought to rule out such complacency. Little moved by the Tankan report, the Nikkei index of leading stocks fell again on Friday. The index ended the week over 5 per cent lower, bringing the combined fall since the start of the year to nearly 24 per cent.

Japan shows every sign of becoming trapped in a vicious cycle of falling prices, worsening private sector debt problems and crumbling domestic demand. Eventually, more profound deregulation of the economy would spur the real economy and help bring down the yen. But in the short term, the easiest way to help would be to loosen monetary policy further, which would work against further yen appreciation and support prices and demand.

However, monetary policy alone looks less and less capable of healing the sector which worries investors the most - the banks. Japanese banks are now thought to be carrying at least Y40,000bn (£298bn) in bad debts, a figure equal to 6 per cent of their total lending. Last week the government seemed about to accept the need for more direct – and costly – measures to alleviate this debt burden. Yet the much-vaunted package of support, unveiled on Thursday, turned out to be only a warmed-up version of the same old policies.

Plainly, the scale of the crisis in Japan, not merely in the banking sector but in the economy as a whole, requires a more aggressive approach. Neither the government, nor the central bank, can afford to delay any longer in providing one.

Hong Kong court

The Sino-British agreement on Hong Kong's court of final appeal marks an important milestone on the road to 1997. Not only does the deal resolve one of the most contentious outstanding issues, which had been threatening to undermine business confidence during the transition to Chinese rule. By holding out for an agreement, Britain has recognised that the time for bold independent initiatives is past.

Such crucial issues can no longer be tackled unilaterally like the earlier electoral reform. From now on collaboration must be the order of the day, and China will inevitably play the dominant role.

There has never been an easy trade-off between a smooth transition and the need to secure democratic and legal safeguards for Hong Kong after 1997. Britain won agreement on the court only at the expense of a significant climbdown. It wanted the court set up well ahead of 1997 to provide a body of jurisprudence. Instead it will start operations only after the handover. China will effectively be able to define its remit by deciding which so-called "acts of state" are outside its jurisdiction.

Not surprisingly this leaves the legal community uneasy. Mr Martin Lee, the outspoken barrister who leads the anti-Beijing Democratic party, fears the rule of law will be undermined because the court will be unable to hear cases against the government. By and large the business community is pleased. A nasty confrontation has been avoided. At least there will be no legal vacuum after 1997 and Britain will have some say in arrangements for setting up the court.

At this stage, one can only guess whether the business view is too complacent. No one knows exactly how China will behave after 1997. Yet Beijing's readiness to reach a deal after months of obstruction is a positive sign.

It does not follow that other badly needed agreements, like that on financing the new airport, will now fall into place. Other disagreements lie ahead, for example over Hong Kong's plan to relax press censorship laws. But the territory can take some heart from the fact that this deal involves concessions from the Chinese side as well.

Beijing has dropped plans to set up a review tribunal which could override decisions it did not like. Its promise to work towards the passage of the bill setting up the court is a rare recognition of the role of the Legislative Council, an institution it instinctively distrusts.

Above all, the deal implies that Beijing is at least aware of the risk to confidence if there is no established rule of law after 1997. If so, it must also recognise that last week's agreement is only a beginning. The real test will come when the court is up and running. Hong Kong's legal system after 1997 must be seen to be impartial and independent if business confidence is to be maintained. Only then would current doubts be laid to rest.

Mr Barcelona on a winning ticket

Simon Kuper and **Andrew Adonis** on how a rebirth of municipal leadership has helped the city to flourish

To win a fourth term of office with your party in a trough of unpopularity is not an easy task. Mr Pasqual Maragall's re-election last month as Socialist mayor of Barcelona, Spain's second largest city, is a testament to the popularity of his forceful approach to the job of leading a modern European conurbation.

Mr Maragall is not immodest in his claims. He says there are two ways of running a large city. One is his: personalised leadership, ambitious planning and a strong reliance on municipal power as an agent of change. The other is how London is run: by what he sees as an uncoordinated mixture of central government, local government and private-sector organisations.

He recalls a visit he made a few years ago to Mr Michael Portillo, then minister for English local government. Flicking through the mayor's strategic plan for Barcelona, Mr Portillo remarked that London's new private-sector promotion body was similarly ambitious.

"That summed up the difference between us," says Mr Maragall. "The public aspect of a city cannot be separated from its promotion. The two must go together."

Mr Maragall is a thoroughly modern socialist, but unquestioning in his belief in the value of high-profile government action. He insists that the job of the city government is to sponsor ideas, generate popular support and then seek to engage public and private agencies to deliver them.

This ideology is not to all tastes. Yet the practical results are attracting attention worldwide, not least in Britain. London is a larger metropolis, but not so much larger as one might think. Barcelona has a population of 1.6m and its greater metropolitan area embraces 4m – more than half the population of Greater London. Two-thirds of Catalonia's population comes within Barcelona's ambit, giving the city a position similar to that of London in south-eastern England.

A sense of perspective is important. A survey of 500 executives carried out last year by Healey & Baker, an international property consultancy, ranked Barcelona an impressive seventh as a European business location – three places higher than 1993, and above Milan, Geneva, Munich and Stockholm. Yet London came top of the league in both years.

It is the speed and scale of Barcelona's transformation which are remarkable. Its economic growth rate is racing ahead of both Spain and Catalonia; and it scored highest, jointly with Brussels, in a recent survey of companies planning to increase their representation in European cities over the next five years.

In this year's Reith lectures on the modern city, Sir Richard Rogers, the architect, held up Barcelona as an example for London. "Autonomy, vision and strong leadership have totally transformed the city," he said. The process had gone "much further" than providing facilities for the 1992 Olympic games. "It included the realisation of a masterplan, including the refurbishment of Barcelona's streets and squares and the construction of new housing and services."

Barcelona has its share of municipal problems and shabby housing districts, particularly in its "Red Belt" of working-class dormitory towns. But the centre is now attractive, clean and efficient, and there are beaches rather than decaying docks for the first time in a century.

How did it happen?

The Olympics had a galvanising effect, but were as much the result as the cause of change. "Everyone understood from the first that the Games were the excuse, not the aim," says Mr Joan Clos, one of Barcelona's deputy mayors.

The pace has barely let up since. Having renovated the inner city, built new roads and beaches and tripled the size of its airport, the focus is now on upgrading the port, rail links and the still shabby eastern half of town.

Three themes stand out from the experience of Barcelona over the past decade. First, the importance of civic leaders in managing change. Second, the high price – in tax and investment – of the transformation. Third, the role of the municipal government in forging public-private partnerships.

Mr Maragall, a loyal ally of Mr Felipe Gonzalez, the Socialist prime minister, is the public face of Barcelona at home and abroad. Yet his municipal government embraces only about half of the city's population, and under him are 36 borough-type authorities (*regidores*) with their own budgets. His council is more akin to the old London County Council, which covered the inner boroughs, than the Greater London Council abolished in 1986. A Barcelona equivalent of the GLC, embracing the city and suburban authorities, was also abolished in the 1980s. But neither the *regidores*, nor the existence of the Catalan regional government (*generalitat*) under the control of Convergencia, the Catalan nationalist party, have reduced Mr Maragall's status as "Mr Barcelona".

Despite the number of administrative tiers, excessive government does not appear to be an issue. "People feel strongly about Spain, about Catalonia, about Barcelona and about Europe, so the structure makes sense," says Mr Maragall.

Furthermore, of the four tiers of local and national government, only two – city and central government – have significant tax-raising powers. The budgets of the *regidores* are met by the city, and the Catalan *generalitat* is largely financed by block grants from Madrid.

There is tension in the relationship with the regional government, led by Mr Jordi Pujol from a palace facing Mr Maragall's office in the city centre. Convergencia fought to oust Mr Maragall from his office in last month's elections, and Mr Pujol bridles at the suggestion that his region is essentially Greater Barcelona. "I have 941 municipalities, one of which is the city," he observes.

However, Mr Pujol has played an important role in channelling central government funds to Barcelona. Catalonia still pays Madrid more than it receives – the balance going to poorer provinces such as Galicia and Andalusia – but the imbalance has shrunk in recent years.

Critics point to the city's debt, which stands at Pta270bn (£1.4bn), the servicing of which swallows almost a quarter of revenue. However, that proportion is no greater than for a typical London borough, while the average per capita city tax of Pta51,338 (£266), including business taxes, is less than that paid by Londoners.

Mr Clos estimates that a total of Pta870bn (£4.5bn) in public and private money was spent preparing Barcelona for the Olympics. More than a third came from private companies, slightly less from Telefonica, the largely private national telecommunications company, and about a third from the public sector. Mr Maragall's pursuit of joint ventures with the private sector has taken him to areas where even the UK's private sector has long been constrained by the government, such as the four-lane ring road around Barcelona.

The mayor is convinced that the municipality's size and resources give it powerful leverage when it comes to industrial and infrastructure projects. He cites the decision of Olivetti to close its city centre factory in the early 1990s. The rent was too high and the building outmoded. Olivetti was considering leaving the region altogether. Mr Maragall did a deal: in exchange for its central site, the city gave Olivetti a more suitable location in a technological park outside town. The municipality then forged a business consortium to establish a shopping centre on the deserted central site. Glories, the largest shopping centre in Barcelona, opened last month.

Similarly, when Barcelona city hall decided that new hotels were needed for the Olympics, it created them swiftly without spending a peseta or needing to gain the consent of a plethora of borough authorities. Against resistance from existing hotels, the municipality reclassified industrial land for new hotels, a city-wide policy that could work in London only if many boroughs agreed. This has raised the number of hotel beds from 17,000 in 1990 to 28,000 now.

The town hall has designated 10 areas of the city as "zones of new centrality", which are to attract offices, shops and homes. The idea is to avoid a huge, soulless business district. At the moment they are little more than lines on a map, and with no Olympics in the offing, there is room for scepticism about their prospects.

However, humility is not much in evidence in the city hall. When the planned design for one hotel struck Mr Maragall as ugly, he called the developers in for a chat. "A beautiful city is one of my main priorities," he says, "and obviously that requires me to have a view on matters of design." The developers amended their plans.

The city government is now running a campaign, featuring a poster of an attractive woman applying lipstick in front of a mirror, to make Barcelona look "pretty". Most businesses in the old town have been persuaded to renovate their buildings.

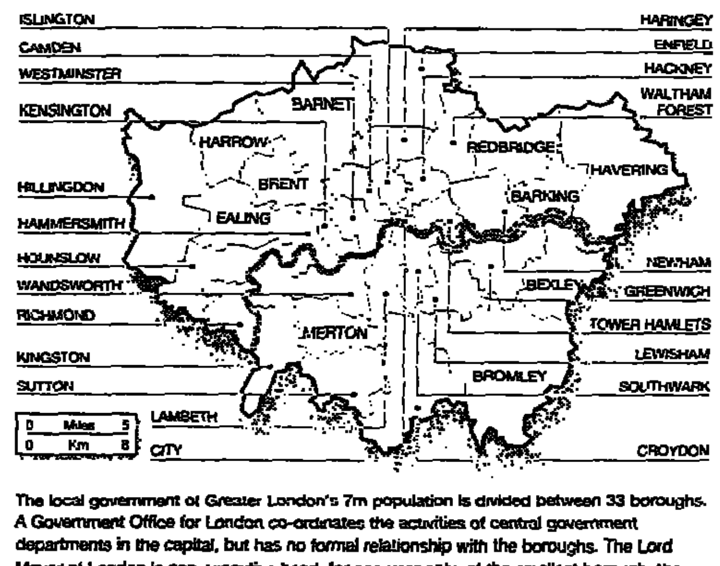
An attractive city with a thriving cultural life is a magnet for new employers and business conventions – a significant growth industry for Barcelona. The hope is that tourism will continue to grow too, particularly now that the city has restructured its harbour to create four miles of beaches.

Catalonia now accounts for half of Spain's inward foreign investment. Mr Joan Torres, the city's transport councillor, muses of popularising the slogan: "Barcelona – the Singapore of the Mediterranean." He adds hastily: "Only in the economic sense." The idea is to turn Barcelona into a flourishing trading centre like Singapore, while retaining the rich collection of art and architecture that Singapore lacks.

The city's main infrastructure projects are a high-speed rail link into France, planned for the next decade, and modernisation of the port. Mr Maragall's target is Europe's shipping trade with Asia-Pacific from Rotterdam. He points out that if Asian shippers used Barcelona as their European port instead, they would save four days per journey.

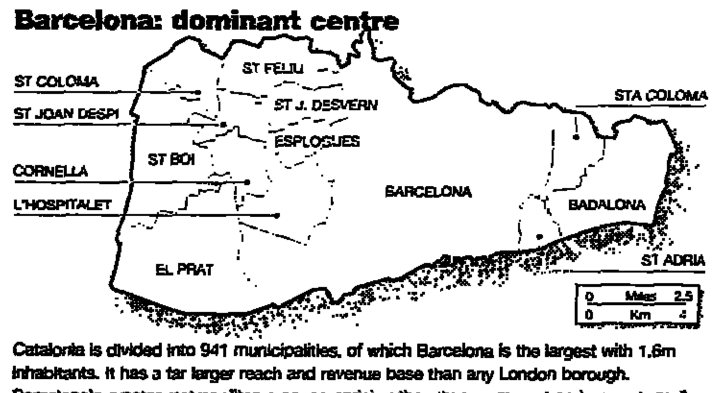
The old port is being remade for tourists. It is modelled on Baltimore's restored harbour, and will have an aquarium like Baltimore's. Mr Maragall and his officials have learned from the latest developments in city planning around the world. Now planners elsewhere are trying to learn from Barcelona.

London: municipal jigsaw



The local government of Greater London's 7m population is divided between 33 boroughs. A Government Office for London co-ordinates the activities of central government departments in the capital, but has no formal relationship with the boroughs. The Lord Mayor of London is non-executive head, for one year only, of the smallest borough, the Corporation of London – or the City. The typical annual borough budget is £250m.

Barcelona: dominant centre



Catalonia is divided into 941 municipalities, of which Barcelona is the largest with 1.6m inhabitants. It has a far larger reach and revenue base than any London borough. Barcelona's greater metropolitan area, comprising the city government and several smaller municipalities, has a total population of 4m.

The city is further divided into 36 regidores, borough-type authorities, but their budgets have little significance compared with the central municipal funds.

Divided rule in London

Bodies claiming to represent London are so numerous, and come and go with such rapidity, that most Londoners would be hard put to name them, let alone their leaders. The past year has seen some rationalisation in the governance of the capital, but there is still no single person or body in charge.

In the private sector, London First has replaced the uncoordinated organisations that used to promote the capital. It has established the London First Centre to attract inward investment. It has also been successful in launching a variety of initiatives such as improved tourism promotion and support for small businesses.

In local government, London's 33 boroughs have until recently been divided politically between the Labour-controlled Association of London Authorities and the Conservative London Boroughs Association. However, the split was healed in April with the formation of the Association of London Government.

Central government has also brought its share of London's administration under one roof, with the Government Office for London. The new office has helped to co-ordinate programmes to regenerate the city and has access to the government's regeneration budget. But it has few real powers: its role is to ensure the boroughs make the most of opportunities to bid for state funds and build private sector partnerships to make the most of their resources.

It has no control over education, although higher education increasingly plays a role in urban regeneration schemes (eight new universities have been created in London in the past three years). Nor does the office have any formal links with the quangos that fund further education, or with Training and Enterprise Councils, which distribute training funds and have a role in attracting investment.

These developments have received a broad welcome from London's businesses and local authorities. Nor should the city's existing strengths be underplayed: international studies rate London highly on many quality of life measures, notably parks and cultural centres. But the fragmentation of its governance has in the past harmed efforts at promotion and regeneration.

The opportunities for coherent strategic planning are still limited. Whitehall officials confess that they are living in the shadow of the Greater London Council, abolished by the then prime minister Mrs Margaret Thatcher nine years ago after a confrontation with its Labour leadership. Since then, there has been no directly elected authority for London, and none of the newly created London-wide bodies has been able to play the role.

The Lord Mayor of London – often the figurehead for the capital abroad – is in fact the non-executive head of the smallest of London's local councils, covering a population of 5,000 in the central business district.

Planning for the capital thus continues to require tortuous negotiations between many bodies. Against the odds, a glossy London Pride prospectus was launched earlier this year with an ambitious programme to make London "head the league of world cities". But implementing its plans will require the co-ordination of an unwieldy assortment of committees.

John Authers

OBSERVER

One more great trek

■ Spare a thought for the publishers of Afrikaans pornography as they trek into territory once forbidden to the God-fearing volk. Important as South Africa's decision to abolish the death penalty is, it should not overshadow other seminal changes that post-apartheid attitudes to civil rights are bringing to South Africa.

Censorship regulations have been repealed and pornography is booming. The state is not prepared to prosecute, for it has to define pornography: nor is it clear how any ban could be reconciled with respect for the civil rights entrenched in the new constitution.

Although enterprising local publishers have moved quickly to satisfy English-speaking South African curiosity, frustrated Afrikaans speakers have had to become the equivalent of linguistic voyeurs. Their young language has been unable to cope with the infinite variety of words and expressions that this form of publishing traditionally requires.

No longer. Rising to the challenge are the publishers of a new monthly magazine written in Afrikaans, Loslyf, literally meaning loose body. But it's hard work. Their English speaking counterparts can draw on the English language's rich history of erotic literature. Loslyf editors have no such legacy. Instead they have to coin new words and phrases as they go along with each issue extending the frontiers of Afrikaans language, philology....and pornography.

Fat fee zone

■ Early doubts about the success of the public offering of Clariant, the industrial chemicals division of Swiss health care products group Sandoz, may be lessened by the revelation that banks managing the SFr1.5bn offer stand to earn an impressive 4 per cent commission. That might even be enough to make investors consider buying the shares of the quoted banks in the syndicate, Union Bank of Switzerland, Swiss Bank Corporation, Credit Suisse, and Morgan Stanley.

Those with discretionary fund management accounts at these august institutions, or other syndicate members Robert Fleming and Goldman Sachs, should not be surprised if some Clariant shares turn up in their portfolios.

View finder

■ The Getty Museum, the US Library of Congress, the New York Museum of Modern Art and the Pompidou Centre in Paris all apparently expressed interest. But it was an anonymous foreign buyer who paid FFr3.2m last Saturday for the personal archives of Raymond Loewy, the ground breaking industrial designer.

Loewy was born in France in 1893 and trained as an engineer. But it was not till he crossed the Atlantic that his career took off. He began in New York as a magazine fashion illustrator and then opened his own design company. He was involved in designing everything from the 1934 Sears Coldspot refrigerator and 1947 Studebaker Starlight Coupe, to the logos still used largely unchanged by Esso and Shell today.

But perhaps his most intriguing design contribution was a rather hollow one: a port-hole in the US rocket which landed on the moon. The astronauts thanked him profoundly afterwards for changing the original window-less design, which would have left them without a view on the world.

Island hookers

■ Though Singapore puts itself forward as a global information hub, the island republic's government makes sure inhabitants are not exposed to harmful outside images by banning the sale of satellite TV dishes.

But the state's rugby fanatics have found a way round the regulatory scrum. Deprived of watching the world cup in South Africa, they have turned to nearby Indonesia. Satellite dishes are also banned there; but the Jakarta government has a more relaxed attitude to enforcing the rules than does Singapore.

So after each game, a video is put on a speed boat to Singapore. A few hours after the final whistle blows, Singaporeans can watch the action.

Filipino suckers

■ It's come to Observer's notice that for some peculiar reason some Filipinos consider the British to be vampires. VAT in the UK *is* 17.5 per cent; but that's hardly bloodsucking. Evidence of this strange belief comes from the latest edition of the London-based newspaper *Pahaygan*, for expatriate Filipinos.

It says that a Philippines tabloid, *Superbalita*, recently carried the story that police are investigating the arrival of a "shipload of vampires from England" which arrived in Lapulapu. The vampires "have landed and are now about their business in the cities of Cebu, Mandaue and Lapulapu. No arrests so far even though "several witnesses had come forward to say they had met some of them." What – and lived to tell the tale?

Will to win

■ On the day England's rugby team overcame world champions Australia, it is only fitting that the Prix de Diane Hermes (French Oaks) horse race at Chantilly should be won by a filly called Carling.

The Financial Times

100 years ago

Quite a day at Rome

They had quite a day at Rome yesterday to celebrate the opening of the nineteenth Italian Parliament. Charity, we are told, begins at home, but Italian reforms apparently begin abroad, if King Humbert's speech from the Throne may be taken as a criterion. To the lay mind it would seem more appropriate to promise that the domestic reforms would be set on foot at once, in the hope that thereby the credit of the country abroad would be re-established. It is with pleasure that we note in the Royal Speech the pointed references to the "intimate friendship" with Great Britain.

50 years ago

Greek money reforms

From Greek Government sources has been received a full version of the statement of M. Varvaressos, Greek Minister of Supply, on his Government's new economic policy. He said the main points were: state control over all industrial and agricultural undertakings; collection and distribution of all goods to the public; decrease of State distributed food prices; stabilisation of the drachma; heavy and immediate taxation on war profits; readjustment of wages and increases from 50 per cent to 83 per cent.

FINANCIAL TIMES
Monday June 12 1995

Microsoft may have met its match in fight over Windows

US authorities gear up for lawsuit on online services

By Louise Kehoe in San Francisco

Microsoft may have finally met its match. The dominant world supplier of software programs for personal computers, with 1994 sales of more than $5bn (£3.1bn), is facing the prospect of a bruising battle with US antitrust regulators.

The Justice Department's antitrust division has launched an aggressive investigation of Microsoft's moves to enter the fast-growing market for online information services. It appears that the agency may be gearing up for a possible lawsuit to block Microsoft's plans to enter the online information services market.

In August, Microsoft plans to launch Windows 95, a new version of its personal computer operating system used on almost 90 per cent of PCs. The program, which controls the basic functions of a PC, is expected to take the market by storm with tens of millions of copies to be sold over the next 12 months.

Built into Windows 95 will be the software needed to access the Microsoft Network (MSN), a new online service providing software support, news, entertainment and communications capabilities.

Microsoft's critics charge that the company is using its dominance in the PC operating system market to gain an unfair advantage as it enters the online services field. Over the past week the Justice Department has issued formal requests for information from Microsoft and several other companies concerning MSN.

This is Microsoft's third, and potentially most serious skirmish with US antitrust regulators. The new investigation strikes at the heart of the company's ambitions to become the leading provider of services to facilitate electronic commerce, information distribution and communications.

This follows a Justice Department lawsuit that last month drove the company to abandon its $2bn acquisition of Intuit, the leading publisher of personal finance management software.

Microsoft's first brush with the agency came last year, when after an exhaustive four-year probe of the company's business practices the Justice Department filed narrow charges relating to the terms under which Microsoft licenses its popular Windows program to PC manufacturers. To avoid a trial, Microsoft entered a consent decree. Court approval of the settlement is still pending.

Rather than await the outcome of the latest Justice Department investigation, Microsoft is taking the offensive. The company claims that its plans for MSN are "pro-competitive and in the interests of consumers".

"This ought to be an antitrust regulator's dream," said Mr Bill Neukom, Microsoft's senior vice-president for law and corporate affairs.

"A capable company is making a substantial investment to become a new entrant in a market with huge opportunity for expansion. We believe we can improve on services that are currently available with better technology and content and lower prices. This is exactly what the US ought to invite, and ought to champion."

That is not, however, the perspective of established online information services companies such as America Online, Compuserve and Prodigy which are directly threatened by the Microsoft Network. Nor are Microsoft's ambitions entirely welcome in the banking, publishing and telecommunications industries, which fear that the software giant may be invading their turf.

"In the new digital world, the operating system for computers is similar to the dial tone for telephones," said Mr Steve Case, president of America Online, the largest online service with over 2m subscribers. "You can't call anybody without going through the dial tone, and you can't use software or a service without going through the operating system."

Microsoft responds that all it has done is to include in Windows 95 a program that will enable PC users to subscribe, if they wish, to MSN. The "purchase decision is entirely separate", Microsoft insists.

The company maintains that it has a "perfectly legitimate right to distribute access software for MSN in Windows 95. Nor do we believe it is our responsibility to include in our product access code for ... competitors."

Yet Microsoft has been forced to back down in its previous battles with the Justice Department and in this instance it may also face pressure from its customers in the PC industry to find a compromise rather than risk a costly delay in launching Windows 95.

Over 150 PC manufacturers are gearing their production plans for the August 24 launch date of Windows 95, while hundreds of software firms are racing to introduce applications programs that run on the new operating system. The closer it gets to the launch date, the more difficult and expensive it will become for these companies to abort the take-off.

HSBC Shanghai building opposed

Bank's 20-storey office proposal threatens bid to reclaim waterfront site

By Tony Walker and Quentin Peel in Shanghai

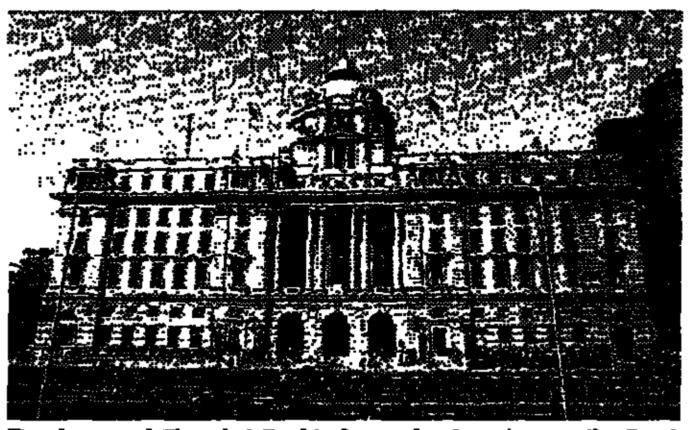
Hongkong and Shanghai Bank's proposed development of a 20-storey office block behind its old headquarters on Shanghai's historic waterfront has been opposed by city officials in a move that may dampen the bank's chances of reclaiming its former premises.

The bank argued that the high price it would be obliged to pay to return to the Bund would not be justified unless it was allowed to redevelop the site.

But Mr John Gray, the bank's chairman, was told by city officials last week that such a large modern structure on Shanghai's famous Bund would be out of character with surrounding colonial era buildings and would therefore be unacceptable.

Shanghai is seeking to revive the Bund, on the west bank of the Huangpu river, as China's Wall Street in tandem with a financial district being developed nearby on the east bank. The city aspires to recapture its former glory as a financial powerhouse of East Asia. Officials make no secret of their ambitions to challenge Hong Kong.

Mr Hua Jianmin, the vice-mayor of Shanghai who met Mr Gray, said a paramount consideration for redevelopment of the Bund was to preserve its character. High-rise structures in the Bund area risked "destroying the skyline".


Hongkong and Shanghai Bank's former headquarters on the Bund, Shanghai's historic waterfront area

City officials will not specify the cost of leasing the ornate, domed structure that served as Hongkong and Shanghai's headquarters in China until the 1949 revolution, but a figure of about $200m is being mentioned.

Mr Hua said the city was facing a "dilemma" because there were "too many bidders" for the building.

There were 10 bidders including foreign and Chinese banks and other companies. Mr Hua would not be drawn on details, but he indicated that a decision was likely by the end of the year. He expects the structure to be sold by tender.

"The decision has to be made by market rules and commercial rules," he said. The city government had decided against open auction.

It is not clear how many of the institutions said to be bidding for the property are serious contenders. Shanghai may be exaggerating the level of interest to improve the price.

In Hong Kong, the bank said it was indeed interested in "getting possession" of the old building, but not at any price.

"We're interested in it for sentimental reasons because it was so much part of our business historically, and also for symbolic reasons. Our return to the Bund would reinforce the importance of China in our strategy, but clearly there are limits on price," said Mr Bob Sherbin, the bank's spokesman.

Hongkong Bank has conducted a detailed study of the site and the structure of the decaying building – it has stood virtually untouched since 1949 – and has concluded that renovation costs would be exorbitant. Representatives have told city officials that the high leasing price could not be justified without the site's extensive redevelopment.

One compromise advanced by the Chinese was for the proposed 20-storey structure behind the existing premises to be made lower to bring it into conformity with the surrounding area.

Since the revolution, the former Hongkong Bank site has been used as headquarters of the Communist party in Shanghai and the municipal government. These organisations are due to vacate the premises at the end of the month for a new building in the centre of the city.

Many foreign institutions have been eyeing premises in the Bund area among the 57 being offered for lease.

THE LEX COLUMN

IBM takes Notes

The extra $200m IBM has put on the table to secure the co-operation of Lotus's management is money well worth paying. Without Lotus's agreement, the acquisition would probably have turned sour, leading top software programmers to defect. As it is, not only will Lotus's senior management remain; there is a fighting chance that the software engineers can be made to feel sufficiently happy to stay.

Lotus gives IBM a leading edge product at the centre of the next wave of computing, which is mainly about networking and communication. The computer giant has strong enough finances to push Lotus's flagship product, Notes, which facilitates collaboration between colleagues in a working environment. On its own, Lotus was struggling to support the development of both Notes and its older products, such as the 1-2-3 spreadsheet programme. With Microsoft increasingly beleaguered by regulators, there must be some chance that an IBM/Lotus combination can make an impact in software.

There is still a question about how the cultures will mesh. On an optimistic view, the injection of Lotus will accelerate IBM's culture change. But the pessimistic possibility is that the much bigger group's staid culture will dominate.

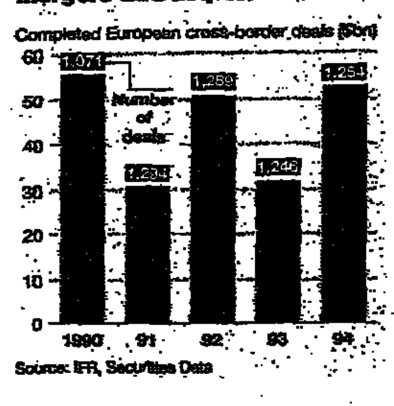
There is also a big question over whether IBM's slow-moving sales force can be a success in marketing a fast-moving "shrink-wrapped" product. This acquisition will be the test of whether Mr Lou Gerstner, IBM's chairman, can give Big Blue a new lease of life rather than merely manage its decline.

Mergers and acquisitions

Global takeover activity this year is up sharply on last year's already high levels. Competition has been intense in recent bids such as those for John Labatt, VSEL and Switzerland's Holvis – pushing prices up. The return of the big deal is unsurprising. European and US companies have emerged from the recession with reconstructed balance sheets and resurgent cash flow. There is a lot of money to burn. Banks on both sides of the Atlantic have excess capital too, and are willing to lend at wafer-thin margins.

But while the prices in some transactions look expensive, most of the big deals have some business rationale. Consolidation of UK cable television, as in last week's merger between TeleWest and SBC CableComms, should have substantial cost savings. Pharmaceutical mergers also make good sense even if the rumoured bid for Zeneca looks unlikely; there are benefits from cutting out duplication in researching, developing and marketing drugs.

Mergers and acquisitions



Source: IFR, Securities Data

One may harbour doubts about whether IBM can really put more pizzazz into Lotus and worry that MCI's decision to sink $2bn into Mr Rupert Murdoch's News Corporation was driven by a desire to buy an entrée to a more glamorous world. But even these deals have the veneer of industrial logic.

Opportunistic financial predators have been absent from the latest wave of takeover activity because they are unable to achieve the same synergies industrial buyers hope for. Still, US leveraged buy-out funds are laden with cash. When they enter the bidding, investors should prepare to exit.

US funds

News that Calpers, one of the largest and most aggressive US pension funds, plans to export its breed of shareholder activism to Europe is likely to ruffle corporate feathers. But there is no harm in that. Many European companies pay insufficient attention to shareholder interests.

The arrival of US fund managers could shake things up. Companies may complain at an invasion of brash Americans, but that is the price they pay for tapping the world's capital markets. With the proportion of US pension fund assets invested abroad doubling in the past four years and still rising, they are likely to become yet more assertive.

It is not only corporate feathers that will be ruffled; many home-grown fund managers could be taken aback by the sharper style. Big UK institutions are experts in the behind-the-scenes approach. A quiet word of disapproval in the company broker's ear is their preferred tactic. They also think it more effective than confrontation. The Saatchi debacle – where US shareholders engineered the ousting of the company's chairman and damaged the business in the process – is a case in point. There is much to be said for the British style, but only if the velvet glove does indeed contain an iron fist. Too often it does not. Proponents of the softly, softly approach might even recognise the benefits of harnessing a bit of US brashness to their cause. After all, the good guy/bad guy approach works a dream in police dramas.

Usinor Sacilor

The delay in privatising Usinor Sacilor, Europe's largest steelmaker, may have been politically expedient given the French elections. But it will not help the French treasury achieve the highest possible price when the group is sold this month. That is not the fault of its management which has made heroic strides. After a FFr4.8bn (£600m) loss in 1993, the company posted pre-tax profits last year of FFr4bn, a substantial achievement even if half of this was generated through disposals. Productivity has improved hugely and the company does not require significant capital spending after heavily investing in modern plant. Strong cash flow and a modest capital injection at privatisation should leave the group without debt within two years.

But the privatisation's timing is poor. Steel stocks are suffering. Since their peaks last year, British Steel and Thyssen's shares have fallen 11 per cent and 18 per cent against their local markets. True, steel prices have risen strongly, but they appear to be losing momentum, as demand growth decelerates. Usinor is heavily dependent on the motor industry, which generates 30 per cent of the group's turnover. But during March and April, year-on-year west European sales of new cars actually fell.

In France, still Usinor's biggest market, they plummeted 12 per cent during April. Moreover, Usinor is at a disadvantage against soft currency competitors in the UK and Italy. This does not mean the French steel group is a bad company, just that the price will need to reflect the challenging environment.

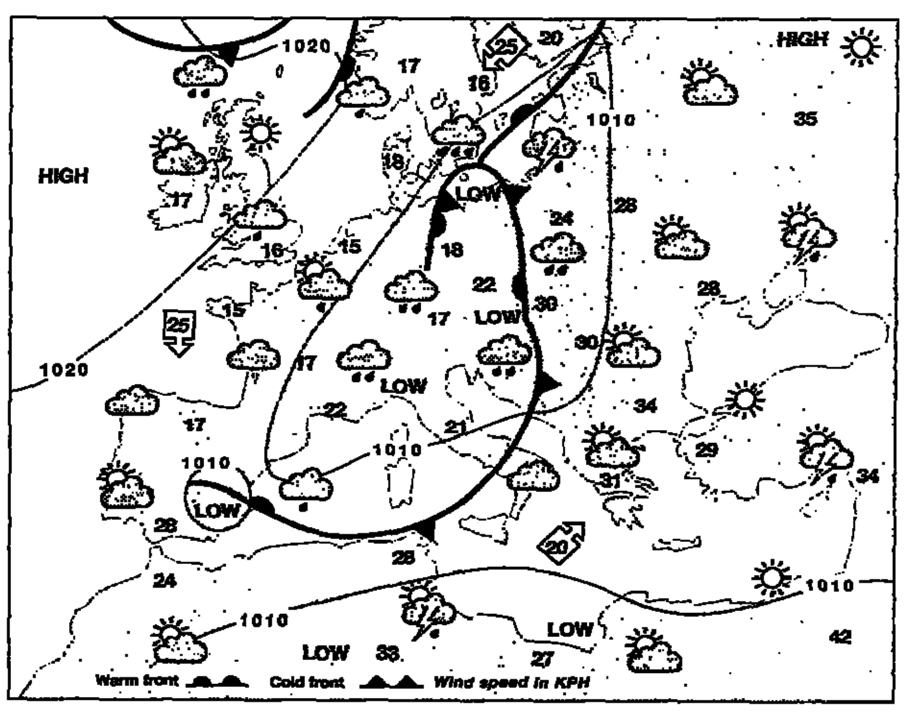
FT WEATHER GUIDE

Europe today

It will be hot from Turkey towards Russia with temperatures reaching close to 35C and isolated thunder storms in the late afternoon. Recurrent thunder will develop from the Black Sea to the Baltics. More sun is expected over Spain and Portugal although the south-west coast will have moderate temperatures as cloud drifts in from the Atlantic. The east coast of Spain may have an afternoon thunder storm. It will be cool and cloudy from the UK to the Low Countries and France. The Alps and Pyrenees will have rain, and showers are expected in the Low Countries and northern France.

Five-day forecast

Cool moist air will persist over western Europe, maintaining cloud and showers from the UK towards France and Germany. It will become sunnier later in the week. South-east and eastern Europe will be hot with afternoon thunder. A boundary between hot and cool air will be marked by rain from the Alps across Poland to southern Scandinavia.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Beijing	sun	31	Caracas	fair	32	Faro	fair	23	Madrid	fair	27	Rangoon	thund	29
		Celsius	Belfast	cloudy	16	Cardiff	drzzl	15	Frankfurt	cloudy	17	Majorca	thund	23	Reykjavik	cloudy	11
Abu Dhabi	sun	42	Belgrade	thund	29	Casablanca	cloudy	21	Geneva	shower	17	Malta	thund	26	Rio	fair	25
Accra	thund	30	Berlin	cloudy	18	Chicago	fair	21	Gibraltar	fair	26	Manchester	cloudy	13	Rome	cloudy	23
Algiers	fair	24	Bermuda	fair	28	Cologne	shower	16	Glasgow	cloudy	18	Manila	fair	35	S. Frsco	fair	20
Amsterdam	shower	15	Bogota	shower	21	Dakar	fair	27	Hamburg	shower	17	Melbourne	shower	15	Seoul	fair	26
Athens	fair	29	Bombay	shower	34	Dallas	sun	29	Helsinki	rain	22	Mexico City	thund	24	Singapore	shower	33
Atlanta	fair	28	Brussels	shower	15	Delhi	sun	43	Hong Kong	fair	32	Miami	thund	32	Stockholm	rain	16
B. Aires	fair	21	Budapest	thund	24	Dubai	sun	41	Honolulu	fair	31	Milan	shower	17	Strasbourg	shower	17
B.ham	drzzl	14	C.hagen	shower	17	Dublin	cloudy	16	Istanbul	sun	28	Montreal	shower	21	Sydney	windy	18
Bangkok	thund	33	Cairo	sun	39	Dubrovnik	fair	26	Jakarta	thund	32	Moscow	fair	26	Tangier	fair	22
Barcelona	cloudy	21	Cape Town	fair	16	Edinburgh	fair	17	Jersey	cloudy	14	Munich	rain	15	Tel Aviv	sun	34
									Karachi	shower	35	Nairobi	fair	27	Tokyo	cloudy	24
									Kuwait	sun	43	Naples	fair	25	Toronto	drzzl	15
									L. Angeles	sun	31	Nassau	fair	31	Vancouver	cloudy	18
									Las Palmas	fair	25	New York	thund	26	Venice	rain	20
									Lima	cloudy	21	Nice	fair	22	Vienna	cloudy	21
									Lisbon	cloudy	23	Nicosia	fair	32	Warsaw	rain	24
									London	cloudy	16	Oslo	cloudy	19	Washington	cloudy	28
									Lux.bourg	shower	14	Paris	cloudy	17	Wellington	shower	12
									Lyon	cloudy	18	Perth	fair	16	Winnipeg	fair	26
									Madeira	fair	22	Prague	rain	17	Zurich	rain	15

FINANCIAL TIMES
COMPANIES & MARKETS
Monday June 12 1995

MARKETS THIS WEEK

TONY JACKSON:
GLOBAL INVESTOR
One good reason for feeling slightly queasy about US equities at present is the dividend yield: or rather, the lack of it. Not only are stock prices at record levels; companies are also paying out less of their earnings in dividends. Companies have also been buying back their own stock in massive quantities. For bulls of Wall Street, this means the market is cheaper than it looks. Page 22

MARTIN WOLF:
ECONOMIC EYE
The proposition that national monetary autonomy is mythical has become conventional wisdom in Europe. But for autonomy to be a myth a monetary authority either must be unable to alter policy or, if it is not, will have no impact on the real economy. Both propositions are mistaken. Page 22

BONDS:
Russia's two-year-old government debt market is "the most successful project in the history of Russian economic reform", according to the deputy chairman of Russia's central bank. Page 24

EQUITIES:
Traders in London will have some important UK economic data to get their teeth into – notably retail prices, producer prices, average earnings and retail sales. New York awaits the figures on retail sales due tomorrow. Page 25

EMERGING MARKETS:
Two global equity offers in less than a month are awakening a wider interest in Portugal. Investors may be favourably surprised by what they find. Page 23

CURRENCIES:
Events such as this week's G7 summit in Halifax, Nova Scotia traditionally produce little to impact on currency markets. But this time there are various reasons for caution. Page 23

COMMODITIES:
By tomorrow morning the coffee market should have a better idea if last week's price setback is set to continue or to be recouped. Page 22

INTERNATIONAL COMPANIES:
VA Stahl, the Austrian steel group, has announced an eight-fold surge in first quarter operating profit to Sch853m ($87m) from Sch102m a year earlier. Page 21

UK COMPANIES:
MGM Cinemas, one of Europe's largest film house chains, could be floated on the UK stock exchange within five years if the US backed consortium, which includes Richard Branson's Virgin Group, wins its £200m bid. Page 20

STATISTICS

Christopher Heath plans new venture

By Nicholas Denton in London

Mr Christopher Heath – the founder of the Asian equities business which brought large profits to Barings bank in the 1980s and disaster earlier this year – has raised $50m to set up an investment group.

Caspian, the new venture, will focus on the emerging markets of Latin America and Asia but will cover corporate finance, asset management and stockbroking.

"There is a correction in the emerging markets and fluidity in the job market. It is a perfect time to be setting up," said Mr Heath, who intends Caspian to be fully operational by the final quarter.

The project marks an effort by Mr Heath to revive a career which surged from 1984, when he became founder and managing director of Baring Securities, Barings' dynamic stockbroking arm, but then stalled. The Japanese equity market collapsed in 1990, Baring Securities suffered losses in 1992, and Mr Heath was forced to resign as chairman of the subsidiary in 1993.

Mr Heath is launching Caspian in the shadow of Barings' collapse in February when Mr Nick Leeson, a trader in Singapore, lost £860m ($1.35bn) on futures and options contracts on Japanese shares, wiped out the bank's capital and forced a sale of the businesses to Internationale Nederlanden Group, the Dutch bank.

Internal Barings auditors criticised checks and balances at Baring Securities but associates of Mr Heath maintained that the failure could not have occurred under his regime.

Caspian is developing a global information system with Andersen Consulting, the computer consultants. Mr Heath said: "Risk management and the technology that we have will make for a very secure environment."

Mr Heath has attracted $50m from investors led by National Finance, the investment bank owned by Siam Commercial Bank of Thailand, which is believed to be subscribing for a 10 per cent stake. A further $200m will be raised as required, Caspian said.

Equitable Life, the UK life insurance company, is taking a 10 per cent stake. Other financial backers include Caledonia Investments and Scottish Eastern Investment Trust.

Mr Heath is also investing part of the personal fortune he built up in the late 1980s when he was the highest paid executive in the City, earning £2.5m in 1987. Mr Heath, who will be Caspian's chief executive, and other executives are contributing $5m for a 10 per cent shareholding. He is joined by former colleagues from Baring Securities including Mr Simon Loopuit, Mr Jim Reed and Mr Bobby Betack, who have resigned from senior positions at Nomura International.

Conner Middelmann assesses the privatisations of telecoms groups around the world

Lines to investors buzz with avalanche of issues

When Portugal raised $936m earlier this month through the sale of 28.3 per cent of its telecommunications monopoly, it brought to around $105bn the amount raised through the privatisation of telecoms operators since 1984.

Yet an avalanche of new telecoms stocks is about to descend on the international capital markets over the next year, with 11 operators – mostly European – seeking to raise at least $30bn by share sales.

As telecoms operators jockey for position in the growing queue for international capital, there are growing doubts over governments' ability to get all this supply away smoothly.

"If governments try to overprice issues, they may find they can't sell them – there will be so many alternatives," says Mr Murray Davey, in charge of the Kleinwort European Privatisation Fund.

The operators that are expected to come to the market over the next year include Germany's Deutsche Telekom, Italy's Stet, Telefonica of Spain, KPN of the Netherlands, Israel's Bezeq, SPT Telecom in the Czech Republic, Hungary's Matav and Indonesia's PT Telkom. France, Sweden, Australia, Turkey, Ireland, Peru, Sri Lanka and Venezuela are also considering privatising their state-owned telecoms operators within the next 18 months.

Privatisation offers governments the opportunity to foster efficiency, commercialisation, customer-orientation and entrepreneurial attitudes in their domestic telecoms operators. It is also seen as evidence of economic good management, by moving this fast-growing business out of the hands of civil servants.

Privatisations can also be highly lucrative for the investment banks that co-ordinate the share sales. Total fees on European privatisations – including underwriting and distribution – are around 3 per cent of the amount raised. The partial privatisation of Germany's Deutsche Telekom, due next year, is expected to raise some DM15bn ($10.4bn), and could generate a total fee pool of up to DM450m. If telecoms sales succeed in raising $30bn over the next year, that means around $900m in bankers' fees.

Forthcoming Telecom Privatisations

Telecom Operator	Stake (%)	Type of offer/	Existing free float	Amount $bn	Date of issue
SPT Telecom (Czech Republic)	27		SS	1	3Q 1995
Matav (Hungary)	40	I/D	IPO*	1	3Q 1995
Telefonica D'Espana	12	I/D	68%	1	3Q 1995
Belgacom	30	I/D	SS	1.8	4Q 1995
Bezeq (Israel)	25	I	24%	0.5	4Q 1995
Stet (Italy)	61	I/D	35%	7	4Q 1995
PT Telkom (Indonesia)	N/A	I/D	IPO	2	4Q 1995
OTE (Greece)	8	D	IPO	0.5	4Q 1995
Deutsche Telekom	49	I/D	IPO	10	1H 1996
KPN (Netherlands)	30	I/D	30%	4	1H 1996
Telkom (South Africa)	30		SS	1	1996

* 30% strategic stake sold to Ameritech & Deutsche Telekom in 1993. Bold figures = projections; IPO = Initial Public Offering; I = International; D = Domestic; SS = Strategic Stake. Source: Global Telecoms Business magazine

> **'If governments try to overprice issues, they may find they can't sell them – there will be so many alternatives'**
>
> Mr Murray Davey, Kleinwort European Privatisation Fund

So far, most telecoms issues have proved attractive to investors. The cash flow from telecoms tends to be strong, generating steady and predictable profits in their home markets. British Telecommunications's dividends, for example, have grown every year since its privatisation in 1984.

"They represent a nice mix of stability coupled with growth prospects which other utilities such as gas or electricity don't offer," says Mr John Yeomans of KPMG.

In the short term, at least, telecoms operators look to be a profitable investment. New technologies are likely to boost operators' business, allowing them to expand services beyond traditional voice telephony to an array of multimedia products and services.

While short-term rewards beckon, the medium-term outlook is murky.

Mr Scott Mead, a managing director at Goldman Sachs, says: "There is no guarantee or predictability of regulatory direction, technological change, consumer preferences and industrial alliances."

This leaves many investors puzzled. "Will deregulation and competition mean telecoms companies' margins will keep shrinking?" asks Kleinwort's Mr Davey. "Or will growth of the new sides of the business make up for that?"

The trend towards deregulation will open opportunities for telecoms operators, particularly outside their domestic markets. But if they are not prepared for competition, deregulation could mean getting crushed by more powerful rivals.

KPMG's Mr Yeomans said: "While it's important to open the market to broader participation, there's a real danger that if you allow totally free competition, the market could suffer from oversupply."

Operators from countries such as the US which have already deregulated their telecoms markets are likely to be better prepared to compete than those from countries only beginning the process. Many European countries fall in the latter category, with the EU enforcing competition in telecom services by January 1, 1998.

The spectre of increased competition has sent many of the world's telecoms operators scrambling into global alliances with operators who would otherwise be rivals. But with competition heating up in all sectors of the communications industry – cable, cellular, global telephony – there is a danger that these alliances will prevent some operators from developing a clear strategy. "Telecoms operators will have to decide whether they want to compete in all areas, form alliances and compete in other operators' markets, or remain focused on defending their home market," says Mr Mead.

Even those that survive in the race for telecoms supremacy may not be able to offer investors the ever-increasing dividends they have become accustomed to.

BT's dividends, for example, cost the company £1.1bn ($1.72bn) last year. Shareholder pressures for higher dividends were bearable when capital expenditure was lower, but "now that capital expenditure and other investment is increasing at home and abroad, such that it could more than double over the next few years, the pressures are unlikely to prove bearable," says Mr Laurence Heyworth, telecoms analyst at stockbrokers Robert Fleming. "Something will give – most probably the rate of dividend growth."

Telecoms companies in less developed nations offer particularly attractive growth opportunities – although the risks are commensurate. "Emerging market operators offer great prospects because there's growth as far as the eye can see, though admittedly political and regulatory risks are much higher there than in most developed countries," says Mr Peter Golob, head of S.G. Warburg's telecoms team.

Some investors see liquid telecoms stocks in small, emerging markets as useful proxies for a country's underlying economy, especially as telecoms companies often mirror these economies' fortunes.

However, the proxy argument has a flipside: "If the market suffers a bout of selling, as these markets often do, everyone dumps the most liquid stock first," says one fund manager.

"In the near term, the flood of issues could weigh on prices," says Kleinwort's Mr Davey. "But in the longer term, those companies with up-to-date technology and good management will see their success reflected in their share price."

Delays dog debut of junior market

By Christopher Price in London

Only between 10 and 20 companies will begin trading on the Alternative Investment Market when the new junior market opens for business on June 19.

AIM is replacing the 4.2 matched bargain market and the Unlisted Securities Market. The constituent companies of these – some 450 – must move to AIM, the full list or go off-market.

Few companies will be trading on the opening day because of delays in the processing of the documentation for companies wishing to join, caused by the need to comply with recent European Union proposals on new issues.

The official application documents were only made available last week. The London Stock Exchange, which devised AIM and which will be responsible for supervising the market, has extended the life of the 4.2 beyond its June 19 expiry date for a further three months. The USM is due to terminate next year.

Besides picking up most of the companies from the two expiring markets, AIM hopes to fulfil one of its original premises: to attract and be a vehicle for young dynamic private companies that need to raise capital. No new companies will be among the AIM debutantes, which are all drawn from the 4.2 market. Only one intends to raise some equity capital.

AIM's development has been dogged by the frostiness of some institutional investors who are concerned over the joining regulations that some fear may lead to poor quality companies.

However, moves by the Exchange to bolster the role of nominated advisers as well as a rigorous approval procedure for the advisory role, have placated many sceptics.

Last week, a survey by BDO Stoy Hayward, the accountancy firm, showed almost four out of five institutions expected to invest in the new market.

The Exchange also plans to fine companies that breach AIM rules. Ms Theresa Wallis, head of the AIM development team, said that the fines system would answer adviser concern on policing.

"The fine clarifies that it is the company and not the nominated adviser which is responsible for complying with the rules," she said.

This week: Company news

NOKIA

Mobile phones prove handy for surging shares

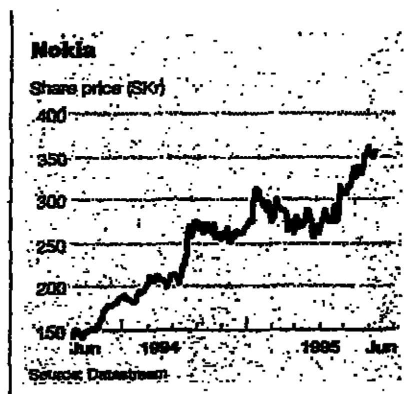
Nokia's shares broke through to new highs last week and its profits will probably repeat the feat this Friday, when the Finnish telecommunications group announces its figures for the first four months.

A continued surge in sales of mobile phone infrastructure and handsets is powering the upturn, even though prices and margins are under pressure. Analysts are looking for pre-tax profits of FM1.4bn ($325m) to FM1.6bn for the period, after FM969m last year, with full-year profits of around FM5.5bn after last year's FM4bn total.

Optimism about the figures as well as the group's success in gaining orders for Personal Communications Systems in the US are behind the rising shares. Nokia has already bagged around FM1bn worth of PCS business but there should be more to come.

Telecoms-related businesses now account for an estimated 90 per cent of Nokia's profits and 70 per cent of sales. The telecommunications and mobile phone divisions are growing by around 50 per cent a year; its other operations are either growing more slowly or are being sold. The group now has 20 per cent of the handsets market, making it the world's second-largest mobile phone maker after Motorola of the US. The main non-telecommunications business, Consumer Electronics, has suffered heavy losses in recent years but returned to profit in the last part of 1994. Analysts will hope the improved trend has been maintained.

Strong four-month figures are expected from many of Finland's big industrial groups. Amongst the companies reporting this week are: Metra, the diesel engine manufacturer (today); Kemira, the chemicals group (tomorrow); Rautaruukki, the steel concern (Wednesday); and pulp and paper manufacturers Metsä-Serla and Enso-Gutzeit (Thursday and Friday respectively).



JAPANESE LIFE ASSURERS

Sector united in losses from sluggish market

Japanese life assurers are scheduled to announce their annual earnings results this week.

The companies have been hit by the negative spread between their investment returns and dividend payouts due to the decline in interest rates and the sluggish stock market, and the industry saw an investment return on assets of around 3 to 4 per cent while paying out policy dividends averaging 5.5 per cent.

Of the leading life insurance companies, Chiyoda Mutual Life and Toho Mutual Life are expected to have posted current losses for the year to last March, along with four smaller companies. It will be the first time in post-war history that more than one of the country's life insurers have posted losses on the recurring level.

Although the ability of the companies is not expected to be jeopardised by the losses due to reserves, dividend payouts which they offer on future policies may need to be lower than those paid by other companies.

The leading eight life assurers incurred negative yields on accounts through which they manage corporate pension funds and tax-qualified pension plans.

Last year the sector lifted premium revenues but a sluggish domestic bond market, smaller interest and dividend income and low interest rates hurt returns on investments.

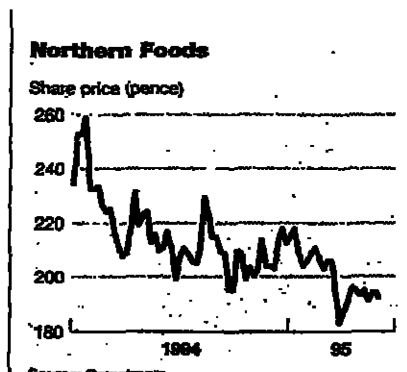
OTHER COMPANIES

Paper group keeps tactics up its sleeve

Buccaneering US-style takeover battle tactics will be on display today in Basle, as International Paper pleads before a civil court for injunctions blocking a couple of poison pill contracts between the Holvis nonwovens and paper distributing group, which it covets, and the highest bidder, BBA of the UK. IP, which has also called for a Holvis shareholders' meeting to throw out the board, claims it has further legal moves up its sleeve.

■ **Compagnie de Suez:** The flagship French industrial and financial holding company holds its annual general meeting on Wednesday amid intense speculation about bids or financial restructuring.
The group, which reported losses of FFr4.7bn ($950m) in 1994 and property write-offs of FFr7.6bn, has admitted that it has been in contact with Mr François Pinault, chairman of Pinault Printemps Redoute, the French retail conglomerate but denies any specific negotiations.

■ **Sandoz:** The Swiss chemicals and health products group will on Thursday reveal the price range for bids for shares of Clariant, the industrial chemicals company being spun off. Figures ranging from SFr400 to SFr450 for the 4m shares in the 100 per cent IPO have been mentioned. But the whole process could still behalted if simultaneous



negotiations with potential trade buyers succeed.

■ **Northern Foods and Unigate:** Two of the UK's largest food processors will update investors this week on their efforts to restructure dairy operations and to deliver their year-end results. Northern has already said it is taking a £91m charge, £59m of which will go on dairy and chilled dairy products. Unigate will be hard pressed to better the pre-tax profits of £113.5m ($178m) last year.

■ **FKI:** The UK electrical engineering and electronic components group is expected on Wednesday to report increased annual profits of about £70m ($110m), compared with £52.3m, following strong growth by its materials handling and hardware divisions. Those two businesses, based mainly in North America, have been the group's first to achieve double-digit margins.

Companies in this issue

COMPANIES AND FINANCE

MGM Cinemas may float within five years

By Peggy Hollinger

MGM Cinemas, one of Europe's largest film house chains, could be floated on the UK stock exchange within five years if the US backed consortium, which includes Richard Branson's Virgin Group, wins its £200m bid.

This appeared increasingly likely over the weekend as the Philadelphia-based Reading company, which is the consortium's majority stakeholder, announced it was in exclusive negotiations for the cinema chain with vendors Crédit Lyonnais.

The announcement means it appears to have fought off rival bids from Michael Green's Carlton Communications, the former favourite to buy the chain, and Rank Organisation. However, if the negotiations break down, Carlton is likely to re-emerge as a front runner in the bidding for Britain's largest cinema chain, which comprises 102 cinemas and 18 multiplexes.

The consortium is understood to be confident of clinching a deal within a month. It plans to appoint Mr Bob Smerling, former president of Sony Theatres and now head of Reading Cinemas in the US, to lead the new company which will be set up after the purchase is completed.

An insider said flotation in the UK would be a possibility within three to five years. Reading, and its 47 per cent stakeholder Craig Corporation, had a history of holding investments in publicly-quoted companies, he said.

The consortium has also negotiated a structured finance package, believed to include about £100m in senior debt provided by Crédit Suisse and a tranche of subordinated debt arranged by CS First Boston.

The consortium partners will be expected to put up about 30 per cent of the £200m purchase price. Reading will hold a majority stake, with the Virgin group as a substantial minority shareholder.

They are understood to have arranged financing as part of the purchase deal to build a further 10 to 12 multiplexes throughout the UK within five years. It has not yet been decided whether the cinemas will carry the Virgin name.

The French bank took over the cinema group in 1990 after calling in loans made to the Italian financier, Giancarlo Paretti, who bought it for $1.3bn in 1990.

BAe considering response to GEC in VSEL bid battle

By Bernard Gray, Defence Correspondent in Paris.

Trevor Humphries

Richard Lapthorne: in Paris selling aircraft, not debating VSEL

British Aerospace has not yet decided whether to increase its bid for VSEL, the submarine maker, in response to GEC's £21.50p a share bid last week.

Senior management at BAe said they would considertheir future course of action when they return from the Paris Air Show at the end of the week.

"We are here in Paris to sell aircraft and to win an order for the UK attack helicopter competition, not to debate the VSEL bid," said Mr Richard Lapthorne, finance director.

BAe has plenty of time to decide what it will do.

It has not yet posted its current offer of 3.3 shares for every VSEL share, and has 46 days after it does to increase it.

Analysts are divided as to whether BAe will continue the bid battle against GEC's attempted knockout.

Some argue BAe should not risk its renewed reputation for financial prudence by pursuing the campaign.

Others point out that tax advantages make VSEL worth more to BAe than to GEC.

If BAe does choose to return to the table it is likely to discuss it with shareholders to ensure their backing.

Analysts were surprised that BAe's shares had not fallen further in response to GEC's bid for VSEL. "There is strong buying support because of the earnings recovery under way in this stock, which should help if it returns with another bid using shares," said one.

● BAe is extending its alliance with the Franco-German Eurocopter Group. The BAe-Eurocopter team is offering the Tiger helicopter in the current £2bn UK attack helicopter competition, and the two will also team on the NH90 transport helicopter. The Department of Trade and Industry has called for alliances between companies competing for the attack helicopter.

Cable on the verge of the big time

Christopher Price discovers the sector may undergo a re-rating after its defining moment

They lose millions of pounds a year. Their capital requirements would sink a small bank. Yet Britain's cable companies are suddenly enjoying a positive news flow which is being reflected in their previously sagging share prices. Analysts are now wondering if the sector could be about to undergo a re-rating.

What may in future years be seen as a defining moment came last Thursday, when TeleWest and SBCC, the biggest and fifth largest cable operators, unveiled a £689m merger.

It was the most significant move yet in the consolidation taking place in the industry and the 6p rise that day in TW's shares to 169p edged the US-owned group ever closer to its November flotation price of 182p.

There was further good news on Friday when Nynex CableComms, Britain's second biggest cable group, achieved a listing price in the middle of its forecast requirement, defying sceptics who had predicted a lower price as had happened with previous cable floats. Analysts attributed the success partly to the TeleWest/SBCC deal which, among a number of positive aspects, removed another big potential flotation candidate from the scene.

At a stroke, the TeleWest/SBCC merger created a company valued at £2.4bn and nearly twice as big as its nearest competitor. It also pushed the new TeleWest into the FT-SE Index of Britain's biggest 100 companies, a promotion which will bring the benefit of greater liquidity in the group's shares as funds tracking the Index take an interest in the group.

The merger also put a distinct value on one of the industry's leading private companies – SBCC being owned by Southwestern Bell and Cox Communications – and should focus investors' minds on just what value should be attached to the previously under-researched sector.

For companies which rely on future revenue growth, analysts have traditionally used discounted cash flow models – estimating revenues at a point in the future and then discounting back to arrive at a valuation. However, as the cable companies have begun to construct their fibre optic networks, build up their asset bases, and generate revenues, more realistic forecasts using different valuation criteria are being used.

One of the most favoured methods, and the one used by S.G. Warburg in advising Nynex on its offer price, is the so-called read across valuation, which allows comparison between the six quoted cable groups and helps give an implied value to the others.

It is calculated by taking the market capitalisation of a company and adjusting it for cash and borrowings. Capital expenditure and plant, property and equipment investment are then deducted. The figure that is left is the "goodwill" value of the group, the value the market is putting on the future revenues. Dividing this by the number of houses in a franchise gives the read across valuation.

> **Some analysts have expressed disappointment at the relatively high churn rates experienced by some operators**

This method awards a higher basic valuation to those companies which have laid more of their fibre optic networks. Less network built implies a lower value.

For example, the share price of TeleWest, which has just under 40 per cent of its network built, gives a value per home of $530, according to figures from S.G. Warburg. SBCC, which has built slightly more of its network, received the same value under the terms of the merger, reflecting the dominance of TeleWest in the new partnership.

For the other quoted companies, Warburg calculates the read across value as $478 per home for Comcast, Bell Cablemedia on $443, Videotron on $404, Nynex on $374, General Cable on $354 and International CableTel, the cheapest with only 13 per cent of its network built, on $374.

Premiums and discounts to this valuation method are put on a company for a number of reasons. The degree of control a company exerts over its franchise areas is seen as important, particularly as consolidation in the industry gathers pace. SBCC, for example, had 100 per cent ownership in its franchise areas, giving it a premium rating. General Cable, on the other hand, shares many of its areas in partnership with other operators.

Where the shares are listed will also be a factor in valuation. Those listed on the London market, as well as in the US, will be afforded a higher rating as the shares are likely to have greater liquidity and greater cash-raising possibilities.

Quality of management is another factor and the pedigree of the parent companies, many of which are US-owned with experience of the US cable market. A company's churn rate – the rate at which customers do not renew subscriptions – is also an important factor, reflecting a company's marketing ability.

Whether or not the cable companies are re-rated will depend a lot on the flow of industry data. Some analysts have expressed disappointment on the rate of growth of the industry, and at the relatively high churn rates experienced by some operators. This, coupled with the fact that the market is suffering from indigestion due to the flood of cable flotations in the past 18 months, has contributed to the underperformance of the sector.

Only last week, BZW downgraded its forecast for the number of cable television subscribers for the year 2000 from 40 per cent of homes to 32 per cent.

It revised its industry valuation from £7.9bn to £7.1bn, and downgraded its valuations on the quoted cable companies by between 5 and 10 per cent. The broker made its cuts after research showed cable tv penetration had stuck at 22 per cent for the past three years.

Quarterly figures from the Independent Television Commission, last week, showed that cable continues to suffer from poor marketing, with only 21.4 per cent of homes passed by cable actually asking to be connected – 963,000 out of a total of 5.165m. With statistics like this, the sector may have to wait a little longer for its re-rating.

German bonus for Attwoods investors

Former shareholders in Attwoods, the waste management company taken over by Browning Ferris Industries of the US in a £391m hostile bid last year, could receive up to a further $9.4m (£5.98m) following the sale of the UK company's German businesses.

BFI announced it was selling the portable sanitation, accommodation and office businesses for $56.8m to an investment group backed by CVC Capital Partners.

It said it could receive up to a further $9.4m following a financial audit, which it expected would be concluded within a year.

In its offer, BFI promised to remit to Attwoods' shareholders the proceeds in excess of $56.8m which it received on the sale of the businesses.

BFI, one of the world's largest quoted waste companies, won its three-month battle for Attwoods in December when it raised its cash offer from £364m.

The company was founded by Mr Ken Foreman, husband of the former model Mandy Rice-Davies.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Interbrew (Belgium)	John Labatt (Canada)	Brewing	£1.25bn	Agreed bid beats Onex
Schwarz Pharma (Germany)	Central Pharmaceuticals (US)	Pharmaceuticals	£112m	US package part of...
Schwarz Pharma (Germany)	Unit of Reed & Carrick (US)	Pharmaceuticals	£73m	...non-Europe drive
Arjo Wiggins Appleton (UK/France)	Newton Falls (US)	Paper	£37.7m	Buy from Sweden's Stora
Northern Foods (UK)	Green Isle (Ireland)	Food	£25m	Stake raised to 79%
Blockbuster (US)	Grupo Mexicano de Video (Mexico)	Entertainment	£22m	Acquiring 80%
Securicor Services (UK)	ASD (Germany)	Security services	£17.8m	Develops German strategy
Homestake Mining (US)	Navan Resources (Ireland)	Mining	£15.2m	Stake plus option
Wellmans (US)	Unit of Akzo Nobel (Netherlands/Sweden)	Plastics	n/a	PET project for buyer
Babcock International (UK)/Siemens (Germany)	Railcare (JV)	Engineering	n/a	Heavy maintenance move

COMPANIES AND FINANCE

NEWS DIGEST

GE Capital to buy life activities of American Express

GE Capital, the financial services arm of General Electric of the US, is buying the life assurance business of American Express, writes Maggie Urry in New York. Terms were not disclosed, but the two said the deal would not materially affect their earnings.

The business changing hands earns annual premiums of $460m, of which $337m come from Amexco's long-term care insurance business. Other lines include long-term disability, accidental death, and corporate owned life insurance. Amexco is keeping the insurance businesses relating to its charge card activities, such as annuities and travel insurance.

The deal "will propel GNA into a position of leadership in the rapidly growing long-term care market" and add add $1.6bn of assets, bringing GNA's total assets to $18.6bn.

Pancontinental declines to recommend offer

Directors of Pancontinental Mining, which has been fighting a bid worth about A$500m (US$380m) from Renison Gold Fields, another Australian mining group, has declined to make any firm recommendation to shareholders, writes Nikki Tait in Sydney.

Renison controls of 50 per cent of its target and has declared its offer unconditional. However, QBE, the Australian insurer, holds over 10 per cent of Pancontinental's shares, and has indicated that it will not accept the bid – meaning that Renison cannot compulsorily mop up all minority holdings.

Pancontinental has outlined three options for remaining shareholders – to accept the offer, to sell shares in the market, or to remain as a Pancontinental shareholder, but said "each entails potential risks and rewards". "Your directors are continuing to discuss with Goldfields (the Renison bid vehicle) the reconstitution of the board of directors to ensure appropriate representation for Goldfields and for minority interests," they added.

Star Mining raises A$50m in placement

Star Mining Corporation, a small Australian company, has taken another important step towards developing Sukhoi Log in Siberia, the world's biggest known gold deposit. NatWest Securities and County NatWest Securities Australia have placed with US and UK institutions 200m Star shares at 25 cents each to raise A$50m gross, writes Kenneth Gooding.

Star owns 35 per cent of Lena Gold, a Russian joint stock company that has the rights to Sukhoi Log.

It is unofficially estimated that development of the first stage of the project will cost between US$400m and US$500m. Star is obliged to provide US$250m towards this in the next 18 months.

Mr Stephen Fabian of County NatWest said the placing would enable Star to cut the outstanding obligation to about US$200m and would add weight to the company's case in further negotiations with the Russians. Investor interest in gold operations in the former Soviet Union had increased recently and the issue was oversubscribed.

Star previously raised A$15m at 36 cents a share in December.

A feasibility study on Sukhoi Log was due to be completed this month but there were delays in gaining access to some geological information because the deposit was deemed a "national treasure" by the Soviet authorities and these details were a state secret. Mr Fabian said this problem had been overcome and the study should be ready in September.

Wesfarmers to divest 'non-core' businesses

Wesfarmers Bunnings, the Perth-based agricultural products and natural resources group, plans to divest its "non-core" manufacturing businesses, writes Nikki Tate in Sydney.

These comprise Du Feu Metal, which makes steel products for the housing industry; The Roofing Centre Group, which also services the housing industry; and a shareholding in Sterlands, a New South Wales-based manufacturer of wall frames and roof trusses.

Ampolex court move on convertible notes

Ampolex, the Australian energy company, said that it was beginning court proceedings, in an effort to get a declaration that the proper conversion rate on its convertible notes was one-for-one, writes Nikki Tait.

This is being challenged by Sir Ron Brierley's Guiness Peat Group, which claims that the original trust deed indicated a 6.6-to-one ratio. However, Ampolex maintains that various subsequent documents made plain that the one-to-one ratio was intended.

Aircraft alliance named

The new British, French and Italian alliance of regional aircraft manufacturers is to be called Aero International Regional, or Air, writes Michael Skapinker in Paris. Mr Nino D'Angelo, an Italian, will fill the rotating presidency during the first year of the venture, which British Aerospace, Aerospatiale of France and Alenia of Italy will begin operating in January.

Big jump in profits at VA Stahl

By Eric Frey in Vienna

VA Stahl, the Austrian steel group, has announced an eight-fold surge in operating profit in the first quarter of 1995 to Sch853m ($87m) from Sch102m a year earlier. The result brightens the prospects for the privatisation of the state-owned company, which is scheduled for the early autumn.

The company's chairman, Mr Peter Strahammer, told a news conference that sales in the first quarter advanced by 23 per cent to Sch11.1bn from Sch9bn. Price increases of up to 10 per cent for VA Stahl's main products also helped boost earnings.

Based on first-quarter results, analysts expect full-year operating profit to climb to a record Sch2.4bn from Sch1.3bn in 1994.

Mr Strahammer confirmed that the state holding group OIAG will sell at least 51 per cent and perhaps as much as 74 per cent of VA Stahl in September or October through a public share offering. The exact amount will depend on the market conditions, he said.

The timing of the issue has been in doubt because OIAG wanted to avoid a clash with the privatisation of the giant French steel group, Usinor Sacilor. But as Usinor's share offering is scheduled to be completed by July 4, the lead managers believe that by the end of the summer there will be sufficient demand for VA Stahl shares.

Earlier this year, the privatisation share offering of Boehler-Uddeholm, the speciality steel maker, had to be cut down sharply because of a weak stock market.

Beside bringing cash into the state's coffers, the share offering should also boost VA Stahl's paid-in capital from Sch3bn to Sch3.3bn and increase its equity ratio from 30 to 40 per cent.

Total debt is set to fall from Sch6bn to below the total cash flow for 1995, which is estimated at Sch4.5bn.

However, plans to rescue a loss-making VA Stahl steel pipe plant at Kindberg in the province of Styria hit a snag following reports that a Russian steel group has cancelled its plans to buy a 26 per cent stake in the factory. A closing of the plant would cause the loss of 700 jobs in an economically depressed region.

Soda Ash Botswana in liquidation

By Kenneth Gooding, Mining Correspondent

Soda Ash Botswana, a $500m venture that started up as recently as 1991 and in which Anglo American Corporation of South Africa has a substantial stake, has been put into liquidation. It employs 452 locals and 114 expatriates and has been contributing about $20m a year in export sales.

AECI, another South African company, formerly known as African Explosives & Chemicals and which has been managing the project, said SAB had been incurring operating losses and had required substantial financial assistance from shareholders.

Analysts suggest the shareholders had to inject another 300m puna (about $108m) during 1992 and 1993.

AECI said SAB's cash shortfall in 1994 was 106m puna and this was budgeted to rise to 171m puna in the current year.

Private shareholders – AECI with 26.5 per cent, Anglo American and its De Beers unit, with 12.5 per cent each – had been negotiating with the Botswana government, owner of the other 48.5 per cent, and SAB's bankers but had failed to agree on a restructuring and refinancing package.

Saurer chief executive quits

By Ian Rodger in Zurich

Swiss shareholders, emboldened by recent battles over Union Bank of Switzerland and non-woven fabrics group Holvis, continue to flex their hitherto flabby muscles.

Mr Melk Lehner has resigned as chief executive of the loss-making textile machinery group Saurer only two days after a large minority shareholder won the support of the annual meeting for a change in strategy.

Mr Lehner blamed a "relentless media campaign" for his withdrawal, but the key move came last Wednesday when BB Industrie, an investment fund with 22 per cent of the shares, won support at the annual meeting for two of its nominees to join the board.

Mr Carl Hahn, a former VW chief executive and Saurer's chairman, sensed the change of mood, and suddenly there were five of nine directors backing BBI instead of four of seven backing Mr Lehner.

BBI, formed only a year ago, has been concentrating its efforts on reducing hostilities between Switzerland's two largest textile machinery producers, Saurer and Rieter.

The two dominate the world spinning machine sector but have engaged in a bitter battle for market share, resulting in a 30 per cent erosion of some prices in the past three years.

In the past few months, BBI has lifted its Saurer stake to 22 per cent, surpassing that of Mr Tito Tettamanti, who tried unsuccessfully to merge the two. Although Mr Tettamanti has only 16 per cent of Saurer, his nominees until last week controlled the board.

Meanwhile, another group of Swiss investors will be pressing for a generous buy-back offer at Wednesday's annual meeting of Merck AG, the Swiss holding company for most of the international operations of German pharmaceuticals group E. Merck.

E. Merck intends to make an initial public offering of its own shares in the German market in the autumn and at the same time bid to buy back the 16.6 per cent of Merck AG shares held by the public.

Kone down at four-month stage

By Christopher Brown-Humes in Stockholm

Kone, the Finnish lifts group, blamed "extremely tough" price competition and the stronger markka for a 9 per cent drop in profits in the first four months of this year.

Profits after financial items fell to FM67m ($15.43m) from FM74m, even though its figures were boosted by last year's acquisition of Montgomery, the US elevators group.

The group also disclosed that it is in talks to sell its remaining non-elevator divisions, Kone Instruments and a steel foundry. It has already sold its cranes, wood, and shipboard handling equipment units.

Lift sales rose to FM2.61bn from FM2.34bn, helping to increase total group sales to FM2.68bn from FM2.48bn. Orders for lifts increased to FM2.2bn from FM2.1bn.

Excluding a 15 per cent rise in the value of the markka, both elevator sales and new orders would have been nearly 30 per cent higher than in 1994.

Kone said Montgomery, which cost $280m, had made a significant contribution to its figures, accounting for about two-thirds of sales and growth in orders.

However, the impact of the acquisition was reduced by increasing competition "in all market areas" and lower demand in important markets, such as France and Italy.

ITT sells remainder of financial division

By Richard Tomkins in New York

ITT, the US conglomerate, has completed the disposal of its ITT financial division by agreeing the sale of the three remaining businesses in several transactions generating gross cash proceeds of $5.5bn.

Net proceeds will be much lower because the gross figure makes no allowances for debt remaining after the businesses are sold. ITT said net proceeds "approximated book value".

ITT said total cash generated by the disposal of ITT Financial came to $13bn. It would not disclose the net proceeds, but the figure is believed to have fallen slightly short of the $3.3bn to $3.5bn the company had hoped for.

The disposal of ITT Financial began in September last year when ITT announced that it was selling its financial services operations to fund an expansion of its hotel, leisure and entertainment interests.

The divestment has involved 20 separate transactions culminating in the latest agreement with a number of buyers to sell the assets of ITT Residential Capital, a mortgage lender; Lyndon Insurance's reinsurance business; and ITT Financial's portfolio of real estate loans and properties, mainly in southern California.

Separately, ITT strongly denied a US newspaper report that ITT and Mr Barry Diller, the US entertainment industry executive, had come "within a whisker" of buying CBS, the television broadcasting network, for about $5bn in cash.

The *New York Post* said the deal fell through because Mr Lawrence Tisch, CBS's chairman, "wanted too much." But ITT dismissed the report as "absolutely fictional".

Last year ITT was widely believed to have approached General Electric about a possible purchase of GE's NBC television network, but no deal materialised.

FINANCIAL TIMES
MARKETS
THIS WEEK

Global Investor / Tony Jackson

Two-way stretch for US equities

One good reason for feeling slightly queasy about US equities at present is the dividend yield: or rather, the lack of it. At around 2.5 per cent, the yield on the S&P Composite index is the lowest on record – lower even than in the summer of 1987, just before the crash.

What we have here is a two-way stretch. Not only are stock prices at record levels; companies are also paying out less of their earnings in dividends.

Last year, US corporations reported a 40 per cent increase in earnings. Even allowing for one-off effects such as lay-offs and restructuring, the rise was around 15 per cent. Dividends, meanwhile, rose 5 per cent.

In part, this is a function of the economic cycle. Profits fluctuate, but companies are expected to keep the dividends flowing.

As a necessary consequence, the pay-out ratio fluctuates with the cycle as well.

The effect has been particularly marked in the latest upswing.

The recession of the early 1990s caught corporations with unusually high borrowings, so the damage to profits was correspondingly severe. Measured against reported earnings (including one-off charges), the pay-out ratio in 1992 rose to an almost unprecedented 80 per cent.

Since then, companies have been rebuilding not only their dividend cover, but their balance sheets.

Through a combination of profit and parsimony, their pay-out ratio has halved.

Of late, they have also been buying back their own stock in massive quantities. For bulls of Wall Street, this means the market is cheaper than it looks. The more a company spends this year on buying its stock, runs the argument, the less it can afford to raise its dividend. Next year comes the catch-up. All the company's free cash can go to the dividend payment, and it is divided among fewer shares. In the meantime, as a smoothing exercise, the dividend yield should be adjusted upwards.

There is room for scepticism here. As Albert Edwards of the London brokers Kleinwort Benson remarks, adjusters always seem to be work upwards, never downwards. Those with long memories may recall the efforts made in the late 1980s to argue that Tokyo's triple-digit p/e ratio was not what it seemed. One or two really heroic adjusters managed to get Tokyo's p/e below Wall Street's. Precious little good it did them when the Japanese bubble burst.

A more interesting defence of low yields comes from the Wall Street firm Dean Witter. The baby boomer generation in America is close to its earnings peak. It is also exposed to job insecurity, white collar shock and a growing awareness that pension promises might not be all that they seem.

The baby boomers are therefore saving for retirement. They are not interested in dividends today; they want capital growth in 30 years' time. Companies are sensing this. Their response is to re-invest more of their cash in the business, rather than giving it away.

In part, this is the kind of argument that makes you want to check your wallet. Whenever the market gets absurdly high on fundamentals, there are always people ready to explain why the fundamentals no longer apply.

Nevertheless, there may be a nub of truth in it. One could even push it further. Perhaps, over the long run, dividend yields are heading downwards. In the 1920s and 1930s, US stocks yielded as much as 9 per cent. In the 1950s – when stocks first yielded less than bonds – the figure dipped below 3 per cent. Now, the bulls might argue, it is pushing towards 2 per cent.

Demographics could be part of the explanation. Another reason is equally basic. In the long run, the proportion of US stocks held by financial institutions rather than individuals is steadily rising. The more stocks you hold in your portfolio, the less it matters if one of them goes bust. Little by little, the shift to institutional ownership means that stock-specific risk is being squeezed out of the market. It is logical to expect the required return on the market to fall accordingly.

This is not to say that US stocks are other than expensive. The question is rather how much more expensive they will get, and how sharp the eventual correction will be. On the one hand, while the dividend yield is clearly a warning sign, other measures such as price to book value or the yield ratio between stocks and T-bonds are less alarming.

Then again, as Mr Edwards of Kleinwort argues, the outlook for corporate earnings may be riskier than it looks. Despite being mean with their dividends, companies have been spending heavily on capital investment and stock buy-backs. As a result, corporate borrowing is rising sharply. Should the economy have a hard landing after all, the risks are obvious.

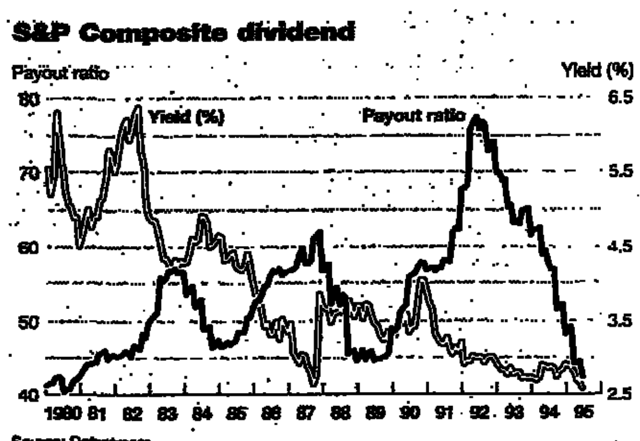
But as Mr. Edwards also points out, things could be worse. Specifically, they could be more like the UK. US corporations are doing what the baby boomers want: investing heavily, and holding back on dividends.

In the UK, the reverse is true. Companies are still reluctant to lower their hurdle rates of return for investment. Rather than spending to expand, they are handing the cash back to shareholders.

In the medium term, the results could prove perverse. By failing to invest, UK companies risk creating capacity bottlenecks and subsequent inflation. They could therefore contribute to a monetary environment in which higher dividend pay-outs become necessary to match rising bond yields.

In the US, the circle could prove correspondingly virtuous. To the extent that companies expand capacity, they contribute to holding down inflation and bond yields, and low dividend pay-outs thus become self-justifying. Perhaps a 2 per cent yield on the S&P is achievable after all. One of these days, anyway.

S&P Composite dividend



Source: Datastream

Total return in local currency to 8/6/95

	% change over period					
	US	Japan	Germany	France	Italy	UK
Cash						
Week	0.12	0.02	0.09	0.14	0.14	0.12
Month	0.51	0.11	0.38	0.65	0.65	0.53
Year	5.38	2.44	5.19	5.89	5.86	6.00
Bonds 3-5 year						
Week	-0.2	-0.46	0.07	0.49	0.25	0.08
Month	1.51	2.08	1.40	0.97	0.97	2.41
Year	8.89	9.95	9.45	7.39	6.54	10.58
Bonds 7-10 year						
Week	-0.11	-0.57	0.30	0.68	0.32	-0.13
Month	2.68	28.94	2.01	1.72	1.49	3.16
Year	12.23	13.85	10.17	7.75	2.46	12.89
Equities						
Week	-0.2	-1.2	0.5	-0.4	-0.7	1.2
Month	1.8	-7.9	4.7	2.0	-2.9	4.4
Year	20.0	-245.5	-1.0	-0.3	-13.6	15.0

Source: Cash & Bonds - Lehman Brothers. Equities-© NatWest Securities. The FT-Actuaries World Indices are jointly owned by The Financial Times Limited, Goldman Sachs & Co., and NatWest Securities Limited.

COMMODITIES Richard Mooney

Coffee estimate awaited

By tomorrow morning the coffee market should have a better idea whether last week's price setback is set to continue or to be recouped.

After tonight's close in New York the US Department of Agriculture will release its latest supply/demand estimates for all world crops, which should include its latest assessment of the Brazilian coffee crop for 1995-96 in the aftermath of last year's frosts and drought.

"While the USDA may not be the most accurate, it is the most neutral arbiter of crop size," a London trader told the Reuters news agency last Friday.

Brazilian trade house Esteve Irmaos could hardly claim to be equally neutral, which may be the reason its forecast last week that the biggest coffee producer's harvest could be halved, produced little market impact. If the USDA came out with a similar projection investment funds would seem certain to take it as a signal to re-enter the market in force.

Other significant data for the coffee market due this week are today's release of the New York Cocoa, Sugar and Coffee exchange's certified stocks report and Friday's commitment of traders report.

Today could also see the start of disruption to Brazilian coffee shipments if the Santos port authority has failed to reach a pay deal with its workers overnight. An indefinite strike has been threatened.

Yet another coffee event this week is Wednesday's annual press conference of the German Soluble Coffee Association in Hamburg.

● In London tomorrow Inco, the Canadian nickel giant, is holding a presentation to mining analysts, at which company objectives and outlook will be discussed. There will be extra interest in this following last week's news that Inco had taken a 25 per cent stake in Diamond Fields Resources' massive nickel discovery at Voisey Bay, Labrador.

The International Primary Aluminium Institute's April stocks figures are due out today.

Economic Eye / Martin Wolf

On monetary sovereignty

"How much autonomy do monetary policies have today in Europe? With capital moving freely between interdependent economies, an autonomous monetary policy is no longer a credible policy option. Member states will only lose a prerogative which in practice they cannot use. By collectively managing EMU's monetary policy, the participating central banks will exercise... a shared but effective responsibility over one of the strongest currencies in the world."

This argument appears in the Commission's "green paper" on the practical arrangements for the introduction of the single currency, published at the end of last month. It is one of a number of arguments that national sovereignty is a myth, while European sovereignty is not. In many cases – money being one – these arguments are doubly wrong: national sovereignty is no myth and, if it were, so would European sovereignty be.

The proposition that monetary autonomy is mythical has almost become conventional wisdom in Europe, but it is remarkably radical. The European Union contains the world's third, fourth, fifth and sixth largest economies. If these have no monetary autonomy, then almost every country in the world – except the US and Japan – should close its currency down.

For monetary sovereignty to be mythical a monetary authority either must be incapable of altering policy or will have no impact on real economic variables, if it does. Each proposition is mistaken.

Ask the Bundesbank whether it is incapable of changing monetary policy. Yet it is not alone. After sterling was brusquely expelled from the exchange rate mechanism in September 1992, three-month rates of interest fell to a maximum of almost 2¼ percentage points below the German level. In May 1994, sterling short-term rates of interest went above the German level, where they have since remained. In the era of exchange-rate targeting, such a swing from negative to positive interest-rate differentials would have been impossible. That was no longer true with a floating exchange rate.

Such changes can also have big and long-lasting real effects. The correlations between movements in the nominal and real effective exchange rates of sterling and the Italian lira, since their departure from the ERM, are almost perfect (see chart). This has already given the UK and Italy almost three years of substantial real effects. Mr Yves-Thibault de Silguy, the EU's monetary commissioner, knows this perfectly well. It is why he said this week in Frankfurt that "If the [single currency] does not arrive, the very existence of the single market would be threatened."

One can argue, as does Mr de Silguy, that competitive devaluations undermine the single market. One can also argue that an autonomous monetary policy must be ineffective. But one can hardly argue both things at the same time. Companies could surely ignore transitory swings in competitiveness. It is because they are not transitory that currency movements create such anxiety.

The fundamental issue is what monetary autonomy means. To answer it, the confusion of sovereignty with absolute power must be eliminated. Fortunately, governments are always constrained by the reactions of those who hold their currency.

This is just as true in a closed economy as in an open one. The monetary authorities can always determine the rate of inflation. If people fear higher inflation, however, they will flee into real assets, thereby creating a rise in nominal long-term interest rates. Economists who believe prices and wages are flexible, even in the short run, would argue this is the end of the story. Others argue the authorities can follow a counter-cyclical monetary policy. Some would also suggest that, in the right circumstances, monetary policy can help change relative prices. Lord Keynes, for example, argued that it is less costly – and far swifter – to lower disequilibrium real wages by raising nominal prices than by lowering nominal wages.

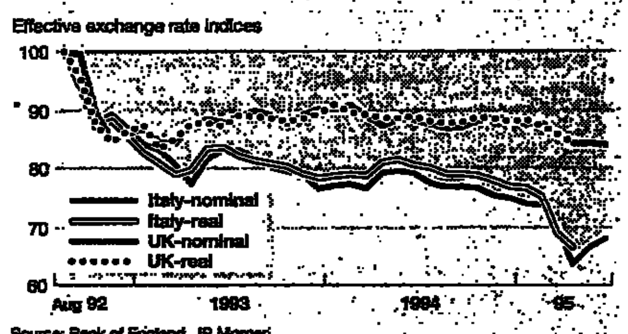
Very little in this analysis changes in an open economy. Openness turbo-charges the effects of monetary policy, but does not change their nature. If people fear monetary policy is inflationary, they have the extra option of flight into foreign assets. The counter-cyclical effects of monetary policy are more powerful, since changes in real exchange rates affect a country's competitiveness in external markets. Finally, if higher prices are able to reduce real wages at all, a devaluation brings this about more quickly, by raising the prices of tradeable goods and services.

Monetary policy must have real effects in an open economy, if it has them in a closed one. Conversely, if monetary policy is ineffective in single member states, because prices *and* wages adjust instantaneously, the same must be true for the EU as a whole. Again, if people will flee from an inflationary monetary policy in single member states, they will also flee from inflation in a single European currency (if they are allowed to).

As so often in debates about Europe's economic future, size is confused with effectiveness. National monetary autonomy is no myth. Its exercise can certainly bring long-lasting, though possibly not permanent, real effects. It is precisely because of this that people want to eliminate national independence. The $64,000 (sorry, Ecu or Euro-Franken) question is only whether the benefits of national monetary autonomy are outweighed by those of intra-European exchange-rate rigidity.

Is monetary autonomy really a myth?

Effective exchange rate indices



Source: Bank of England, JP Morgan

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by The Financial Times Ltd., Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by The Financial Times and Goldman Sachs in conjunction with the Institute of Actuaries and the Faculty of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY JUNE 9 1995 US Dollar Index	%chg since 30/12/94	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 30/12/94	Gross Div. Yield	THURSDAY JUNE 8 1995 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (83)	163.90	-4.5	151.97	87.29	119.07	151.39	2.9	4.15	165.93	164.89	89.19	122.48	152.48	180.82	157.85	174.06
Austria (26)	195.96	7.2	181.70	104.36	142.35	142.18	-3.4	1.25	194.23	181.30	104.39	143.37	142.82	198.89	167.48	176.54
Belgium (35)	191.66	13.8	177.71	102.07	139.23	136.12	3.0	3.84	190.78	178.08	102.54	140.82	137.19	201.12	161.66	165.47
Brazil (28)	132.68	-18.7	123.02	70.66	96.38	222.85	-12.4	1.52	137.46	128.31	73.88	101.46	230.12	-	-	-
Canada (102)	140.68	8.7	130.44	74.92	102.20	140.30	6.8	2.52	141.69	132.26	76.16	104.59	141.03	141.69	120.54	128.69
Denmark (33)	281.05	11.6	260.59	149.68	204.17	208.52	0.1	1.52	278.85	260.29	149.88	205.83	209.87	287.44	238.61	251.25
Finland (24)	218.09	17.3	202.22	116.15	158.43	196.09	6.0	1.56	216.15	201.76	116.18	159.55	196.93	218.09	133.88	139.08
France (101)	182.83	11.6	169.53	97.37	132.82	140.85	2.9	3.15	184.43	172.15	99.13	136.13	144.14	191.17	157.79	168.68
Germany (59)	157.96	10.2	146.46	84.12	114.75	114.75	-0.6	2.07	158.00	145.62	83.85	115.15	115.15	157.96	132.08	136.47
Hong Kong (55)	362.55	11.2	336.16	193.08	263.36	359.99	11.1	3.79	363.20	339.02	195.21	268.09	360.63	416.42	277.40	378.63
Ireland (16)	230.95	12.0	214.14	123.00	167.78	199.06	5.8	3.59	229.12	213.88	123.15	169.13	198.81	230.95	181.99	185.25
Italy (58)	74.63	-0.9	69.20	39.74	54.22	90.90	-0.3	1.88	74.29	69.36	39.93	54.84	91.45	89.22	65.45	88.24
Japan (483)	146.87	-6.4	136.18	78.22	106.70	78.22	-21.0	0.98	148.05	138.19	79.57	109.28	79.57	170.10	136.95	164.56
Malaysia (97)	543.16	13.3	503.62	289.26	394.58	510.52	6.3	1.60	549.17	512.62	295.18	405.37	515.65	594.76	398.16	451.87
Mexico (18)	929.38	-34.4	861.73	494.95	675.14	6321.39	-17.1	2.12	945.76	882.80	508.33	698.10	6395.57	2414.12	847.81	2080.36
Netherland (19)	250.33	15.4	232.11	133.32	181.86	178.52	3.9	3.54	248.35	231.82	133.48	183.32	179.88	252.34	194.56	197.54
New Zealand (14)	80.40	14.1	74.55	42.82	58.41	64.03	9.6	4.67	82.04	76.58	44.10	60.56	64.99	84.31	64.00	69.76
Norway (33)	223.44	4.8	207.17	118.99	162.31	188.41	-3.7	2.24	221.20	206.48	118.89	163.26	189.34	230.07	177.53	182.20
Singapore (44)	395.44	6.0	366.66	210.60	287.27	253.54	1.2	1.69	401.12	374.42	215.60	296.09	257.22	414.26	318.94	341.40
South Africa (61)	341.20	1.3	316.36	181.71	247.86	273.94	-8.7	2.54	344.06	321.16	184.93	253.97	276.88	363.22	261.45	270.46
Spain (36)	148.12	12.2	137.34	78.88	107.60	135.97	3.3	4.16	147.10	137.31	79.07	108.58	136.88	151.79	124.10	142.55
Sweden (48)	266.60	15.3	247.19	141.98	193.67	283.94	11.6	2.10	264.04	246.46	141.92	194.90	283.19	266.60	196.70	213.21
Switzerland (46)	199.08	20.5	184.59	106.02	144.62	142.00	6.0	1.61	196.16	183.11	105.44	144.80	142.45	199.48	155.05	160.28
Thailand (46)	171.05	8.2	158.60	91.10	124.26	163.61	6.2	2.67	173.09	161.57	93.03	127.76	165.83	-	-	-
United Kingdom (203)	216.44	11.1	200.69	115.27	157.24	200.69	8.7	4.17	217.62	203.13	116.97	160.64	203.13	218.27	181.11	188.75
USA (506)	215.77	14.9	200.08	114.91	156.74	215.77	14.8	2.67	217.59	203.10	118.95	160.61	217.59	219.15	180.55	186.73
Americas (654)	197.68	13.5	183.29	105.27	143.60	165.85	13.7	2.65	199.40	186.13	107.17	147.18	167.26	-	-	-
Europe (739)	189.06	11.9	175.29	100.68	137.34	158.07	4.9	3.16	188.68	176.12	101.41	139.27	159.80	190.51	180.59	164.46
Nordic (138)	255.82	14.0	237.20	136.24	185.84	225.63	7.2	1.93	253.47	236.59	136.23	187.09	225.85	255.82	197.70	202.79
Pacific Basin (822)	156.97	-4.5	145.54	83.59	114.03	88.50	-17.1	1.34	158.25	147.72	85.06	118.81	90.89	176.86	145.93	172.01
Euro-Pacific (1561)	170.24	2.5	157.85	90.66	123.67	114.96	-7.9	2.18	170.83	159.46	91.82	126.09	116.44	178.33	164.73	189.70
North America (608)	211.12	14.7	195.75	112.43	153.37	210.65	14.6	2.66	212.88	198.71	114.42	157.14	212.40	214.30	176.83	185.13
Europe Ex. UK (536)	170.05	12.3	157.67	90.56	123.53	134.16	2.9	2.59	169.00	157.75	90.83	124.74	135.27	171.29	144.12	148.67
Pacific Ex. Japan (339)	253.55	6.4	235.10	135.03	184.19	222.87	6.9	3.19	255.86	238.83	137.52	188.87	224.51	273.13	211.19	245.69
World Ex. US (1770)	170.85	2.1	158.41	90.99	124.11	118.50	-7.8	2.19	171.52	160.11	92.19	128.61	120.02	178.73	155.42	169.73
World Ex. UK (2073)	181.32	6.1	168.12	96.56	131.72	141.52	-1.0	2.17	182.34	170.20	98.00	134.89	143.06	187.07	163.46	170.13
World Ex. Japan (1793)	205.87	12.1	190.89	109.64	149.55	191.28	9.5	2.88	206.85	193.08	111.18	152.68	192.98	206.74	178.74	181.84
The World Index (2276)	184.39	6.5	170.96	98.19	133.94	146.57	-0.1	2.37	185.41	173.07	99.66	136.96	148.21	189.27	165.92	174.36

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local); Brazil, Thailand and Americas: Oct 31, 1994 = 180.44 (US $ Index), 164.07 (Pound Sterling) and 149.94 (Local). Constituent changes during the week ending 9/6/95: Name changes: Pagurian Corp. to Edper Group A (Canada) and United Newspapers to United News & Media (UK).

EMERGING MARKETS: This Week

The Emerging Investor / Peter Wise

Developing a safe haven in Portugal

Two global equity offers in less than a month are awakening a wider interest in Portugal, one of Europe's peripheral emerging markets that was previously an undiscovered area for many international investors.

Encouraged by the recent issue of Portugal Telecom – to be followed later this month by an offer of 40 per cent of Portucel-Industrial, a pulp producer – a number of institutions are examining the country's potential for the first time.

They may be favourably surprised by what they find.

A tendency to bundle Portugal with Spain – as a relatively undisciplined economy stimulating growth by successive currency devaluations – proves unjustified on closer examination.

"Portugal has maintained an impressively firm exchange-rate policy since the early 1990s," said Ms Sally Wilkinson, southern Europe economist with Union Bank of Switzerland.

"All the right policies are in place to build a developed economy; it just takes time."

Investment is forecast to take over from exports this year as the main drive behind Portugal's slow recovery from recession.

UBS forecasts gross domestic product growth will rise to 3 per cent this year from 1 per cent in 1994, moving up to 3.9 per cent in 1996 – above the European Union average – and to 4.1 per cent in 1997.

Large EU transfers will fuel strong investment in infrastructure, a trend that is being additionally stimulated by the approach of a general election on October 1.

Recovery is occurring against a healthy backdrop of fiscal discipline, a stable exchange rate, and controlled inflation, which is forecast to remain stable at about 4.6 per cent this year and next.

In spite of the general election and a presidential election early in 1996, Portugal is relatively free from political risk.

Both the ruling centre-right Social Democrats and the opposition Socialists, who are ahead in the polls, are committed to meeting convergence targets for European monetary union.

Differences over economic policy are little more than a question of nuance.

A minority government would, however, hamper reforms.

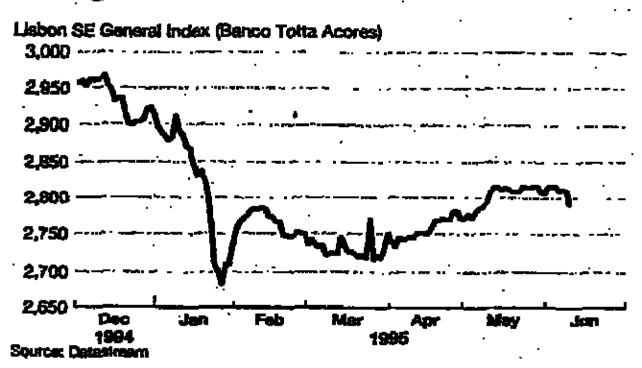
Fund managers starting to look at the Lisbon stock market will find that Portugal was the best performing European bourse in 1993 and the second best in 1994.

Growth has been flat this year. The National Continuous Index (BVL-INC) closed down 10 points on Friday at 1,300.41, a loss of 1.5 per cent since January. But the market has gained from a low of 1,254.86 in March.

"We expect the market to rise by 5 to 10 per cent by the end of the year," said Mr Pierre Boulle, director of research at Fincor, the Lisbon brokers. "The increase in the year from the trough of last March is likely to be more impressive."

Portucel and Portugal Telecom, which accounts for 16 per cent of total market capitalisation, will strongly influence overall growth.

Portugal



Source: Datastream

After a week of trading Portugal Telecom has gained only 2.1 per cent on the offer price of Es2,800, considerably short of the 10 per cent rise targeted by the global co-ordinators.

Dealers are confident of faster growth for Portucel. The price range for the issue, to be concluded on June 27, has been set at Es920 to Es1,210. "There is more risk and more potential gain in Portucel," said a Lisbon trader. "If the entry price is low, investors will be looking for substantial gains before exiting as the pulp sector reaches the top of its cycle in two to three years."

As a relatively high-growth European economy that is also structurally sound, Portugal is becoming difficult to classify either as an emerging or a developed market.

The country no longer suffers from the volatility and risk that beset markets in Latin America and eastern Europe, but neither can it match their growth rates.

"Portugal is gradually losing its status as an emerging market and is likely to earn recognition as a small, developed market in about two years," said Mr Mark Howard, a Madrid-based analyst with Singer & Friedlander.

"The country is a safe haven where selective investors can be almost certain of a reasonable return."

Emerging market fund managers, eager for strong performance after the losses of 1994, are looking for stronger gains than Lisbon can offer this year. As a result, few give Portugal a weighting of more than 5 per cent. But they continue to drive the Lisbon market, which is forecast by Carnegie Portugal to show an average price/earnings ratio of 12.4 this year.

Other institutions pick individual stocks rather than play the index. New investors drawn to Portugal by Portugal Telecom and Portucel are likely to look for large, liquid companies. They will find that the biggest barrier to Portugal's becoming a fully developed market is the scarcity of such stocks.

"Many institutions are deterred by markets where they cannot invest at the level they are used to," said Mr Paulo de Araujo, emerging markets director at Schroders.

"They often work in units of several million dollars and are not encouraged when they find it can take up to week to build a position of that size in Portugal."

The Portugal Telecom and Portucel issues will go some way to improving liquidity in a market where the free-float is estimated at about only 30 per cent. They are also a first step towards diversification into industrial stocks and utilities. A future and options market due to be launched in Oporto later this year will further enhance the liquidity of the market as a whole. Investors would like to see more issues of fixed-rate long-term government paper to complete the picture.

According to Mr Trevenen Morris-Grantham, an analyst with Carnegie Portugal, two of the few liquid stocks likely to attract new investors are Sonae Investimentos, with holdings in retail distribution and wood products, and the cement company Cimpor, which will be favoured by strong investment in infrastructure. Banks, which dominate the market, are not expected to make any significant gains until 1996.

News round-up

■ Mexico

The Mexican equity market is poised to be one of the prime beneficiaries of a fall in US interest rates in the second half of the year, according to Ms Maryam Mansoury, emerging markets strategist at Lehman Brothers in New York, *writes Philip Coggan.*

Mexican companies are around 70 per cent geared, according to Ms Mansoury, and a US interest rate cut would both help them and relieve the pressure on the Mexican banking system.

The stock market should also start looking forward to 1996 earnings, which should look good in comparison with 1995. After the recent bond market rally, Mexican shares look attractive in relation to fixed interest securities on Ms Mansoury's measure, which compares the earnings yield with real bond yields.

■ Equity funds

Capital flight from emerging market equity funds barely got off the ground during the first quarter, according to a survey. "With market performances now turning positive, it is very likely that the flight will be grounded before it becomes fully airborne," says Micropal in its latest emerging market fund monitor. Fund managers in the US, Europe and Asia were net sellers of less than $300m, representing 1 per cent of the $26bn covered by the survey.

An interesting feature was that managers of dedicated regional funds sold more than their counterparts managing globally diversified funds.

● Olliff & Partners, the specialist broker dealing in closed end funds, has recommended buying Hungary and Pakistan and selling Turkey.

■ Venezuela

The IFC is to make its first investment in an electronic securities exchange to be established in Caracas. The IFC is investing $500,000 for a 9 per cent equity stake in Sistema Electrónico de Transacciones.

The Bolsa Electrónica de Valores de Venezuela will be designed, said the IFC, "to offer a more efficient and cost effective alternative to the two securities exchanges currently operating".

■ Vietnam

Hanoi held its first auction of domestic treasury bills last week, selling bills worth 83.6bn dong ($7.6m), which was 39 per cent higher than had been anticipated. The state bank had aimed to sell 6 month bills worth 60bn dong.

Thirty banks, including three joint ventures and four foreign branches, submitted sealed bids for bills in denominations of 10m dong, 5m dong, 2m dong and 1m dong. The interest rate was set at 18 per cent a year.

Auctions of T-bills will replace existing six-month treasury bills which carried a fixed interest rate of 1.7 per cent per month.

The government is preparing for the country's first international treasury bond issue but has not disclosed when this will take place.

■ Ivory Coast

The Ivory Coast expects to privatise 15 more companies this year to raise some CFA FFr30bn, the government said last week. The prime minister, Mr Daniel Kablan Duncan, said in London that economic growth was on target, forecast at 6.5 per cent in 1995, increasing to 10 per cent by 1998. However, such targets were dependent on agreement to reschedule the country's large foreign commercial debt, he said.

Edited by John Pitt. further coverage of emerging markets appears daily on the World Stock Markets page

Baring Securities emerging markets indices

Index	9/6/95	Week on week movement Actual	Percent	Month on month movement Actual	Percent	Year to date movement Actual	Percent
World (352)	147.85	-1.83	-1.22	+0.10	+0.07	-10.18	-6.44
Latin America							
Argentina (23)	80.08	-4.05	-4.82	-1.34	-1.65	-6.03	-7.00
Brazil (23)	178.58	+0.54	+0.30	-6.13	-3.32	-30.79	-14.71
Chile (13)	232.90	+0.47	+0.20	+1.01	+0.44	+21.34	+10.09
Mexico (25)	65.88	-1.80	-2.65	-5.54	-7.75	-31.75	-32.52
Peru (16)	929.08	-16.38	-1.73	-4.54	-0.49	+80.41	+9.47
Latin America (100)	117.54	-1.53	-1.29	-4.26	-3.50	-21.23	-15.30
Europe							
Greece (18)	104.32	+1.48	+1.44	-5.74	-5.22	+17.33	+19.92
Portugal (23)	124.47	+0.94	+0.76	-2.90	-2.28	+8.19	+7.05
Turkey (22)	141.80	+12.77	+9.89	+5.42	+3.98	+65.69	+86.30
South Africa	132.54	-2.22	-1.65	-5.44	-3.94	+4.59	+3.59
Europe (95)	115.07	-0.05	-0.04	-3.89	-3.27	+17.37	+17.78
Asia							
Indonesia (28)	142.36	-1.58	-1.10	+19.99	+16.34	+8.67	+6.49
Korea (24)	136.85	-0.70	-0.51	-3.43	-2.45	-3.04	-2.17
Malaysia (22)	249.12	-6.63	-2.59	+24.57	+10.94	+38.26	+18.15
Pakistan (15)	85.11	+3.66	+4.49	+5.40	+6.77	-21.09	-19.68
Phillippines (12)	287.58	-5.66	-1.93	+23.82	+9.03	+5.45	+1.93
Thailand (25)	269.94	-2.07	-0.76	+8.61	+3.30	+18.30	+7.27
Taiwan (32)	147.27	-3.00	-1.99	-5.60	-3.67	-36.88	-20.03
Asia (157)	219.02	-3.71	-1.67	+11.82	+5.70	+8.40	+3.99

All indices in $ terms, January 7th 1992=100. Source: Baring Securities

CURRENCIES Philip Gawith

Busy week for currency traders

The combination of some key statistical releases in the US and the backdrop of important policy meetings makes for an important week on the foreign exchanges.

The key event is the G7 summit in Halifax, Nova Scotia. Traditionally these meetings produce little of substance to impact on currency markets. But there are various reasons for caution on this front.

First, the rally in the dollar in early May came soon after the Washington meeting of G7 central bank governors and finance ministers in late April. Second, the recent, successful round of central bank support for the dollar had its roots in the communique issued at that meeting.

This has led some observers to wonder whether leading industrial nations are not preparing themselves for a "reverse Plaza accord" (that is, a concerted effort to reverse the fall in the dollar).

At the very least, markets are likely to be cautious for fear of being caught offside by some policy initiative, even if it seems unlikely.

Tomorrow also sees the release of key consumer inflation and retail sales data in the US.

The market was last week retreating from its view that the economy was plunging into recession, and the retail sales figure will have an important influence on this discussion.

Currently, stronger economic data is likely to be seen as dollar supportive.

At least three other events have the potential to impact on the dollar: the meeting in Halifax between President Clinton and Mr Tomiichi Murayama, the Japanese prime minister; further developments in US-Japan auto talks, in the run up to the June 28 trade sanctions deadline; and the Bundesbank council meeting on Wednesday.

The trade dispute remains a key issue for the dollar, with any signs of heightened disagreement hitting the US currency.

There is also widespread expectation of a further cut in German interest rates, if not this week, which would lend support to the dollar.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, June 9, 1995. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	5660.46	3540.00	2533.46	4201.78
Albania	(Lek)	167.735	104.900	75.0734	124.510
Algeria	(Dinar)	72.1149	45.1000	32.2765	53.5312
Andorra	(French Fr)	7.8525	4.9110	3.5146	5.8291
[illegible]					
Ecuador	(Sucre)	3907.98o	2444.00	1749.09	2900.89
	(Sucre)	3971.92a	2484.00	1777.71	2948.37
Egypt	(Egyptian £)	5.4699	3.4208	2.4482	4.0603
El Salvador	(Colon)	13.9913	8.7500	6.2621	10.3856
Equat'l Guinea	(CFA Fr)	785.250	491.100	351.464	582.906
Estonia	(Kroon)	18.0022	11.2584	8.0573	13.3631
Ethiopia	(Ethiopian Birr)	9.2262	5.7700	4.1294	6.8487
Falkland Is	(Falk £)	1	0.6254	0.4476	0.7423
Faroe Is	(Danish Krone)	8.7223	5.4550	3.9040	6.4748
Fiji Is	(Fiji $)	2.2176	1.3870	0.9926	1.6463
Finland	(Markka)	6.8501	4.2841	3.0660	5.0850
France	(Fr)	7.8525	4.9110	3.5146	5.8291
Fr. Cty/Africa	(CFA Fr)	785.250	491.100	351.464	582.908
Fr. Guiana	(Local Fr)	7.8525	4.9110	3.5146	5.8291
Fr. Pacific Is	(CFP Fr)	143.997	90.0545	64.4489	106.890
Gabon	(CFA Fr)	785.250	491.100	351.464	582.908
Gambia	(Dalasi)	15.2705	9.5500	6.8346	11.3353
Germany	(D-Mark)	2.2342	1.3973	1	1.6585
Ghana	(Cedi)	1838.85	1150.00	823.016	1364.99
Gibraltar	(Gib £)	1	0.6254	0.4476	0.7423
Greece	(Drachma)	360.387	225.390	161.304	267.525
Greenland	(Danish Krone)	8.7223	5.4550	3.9040	6.4748
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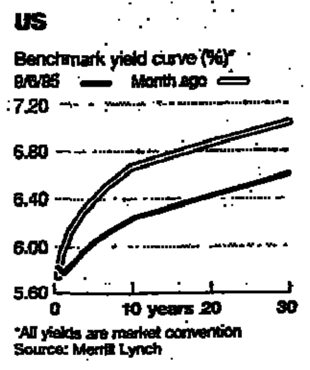
Moldova	(Leu)	7.2371	4.5260	3.2391	5.3721
Monaco	(French Fr)	7.8525	4.9110	3.5146	5.8291
Mongolia	(Tugrik)	677.976	424.000	303.442	503.264
Montserrat	(E Carr $)	4.3173	2.7000	1.9323	3.2048
Morocco	(Dirham)	13.4348	8.4020	6.0130	9.9727
Mozambique	(Metical)	11672.7	7300.00	5224.36	8664.69
Namibia	(S A Rand)	5.8734	3.6733	2.6289	4.3600
Nauru Is	(Australian $)	2.2206	1.3887	0.9938	1.6483
Nepal	(Nepalese Rupee)	80.5736	50.3900	36.0624	59.8101
Netherlands	(Guilder)	2.4984	1.5625	1.1182	1.8546
N'nd Antilles	(A/Guilder)	2.8622	1.7900	1.2810	2.1246
New Zealand	(NZ $)	2.3962	1.4997	1.0733	1.7801
Nicaragua	(Gold Cordoba)	11.9471	7.4716	5.3472	8.8684
Niger Rep	(CFA Fr)	785.250	491.100	351.464	582.908
Nigeria	(Naira)	34.9957o	21.8860	15.6631	25.9775
	(Naira)	132.713m	83.0000	59.4003	98.5163
Norway	(Nor. Krone)	9.9335	6.2125	4.4461	7.3739
Oman	(Rial Omani)	0.6156	0.3850	0.2755	0.4570
Pakistan	(Pak. Rupee)	49.4899	30.9500	22.1420	36.7228
Panama	(Balboa)	1.5990	1	0.7157	1.1869
Papua New Guinea	(Kina)	2.0631	1.2903	0.9234	1.5315
Paraguay	(Guarani)	3146.03	1967.50	1408.07	2335.31
Peru	(New Sol)	3.6001	2.2515	1.6113	2.6724
[illegible]					
U A E	(Dirham)	5.8729	3.6730	2.6286	4.3596
United Kingdom	(£)	1	0.6254	0.4476	0.7423
United States	(US $)	1.5990	1	0.7157	1.1869
Uruguay	(Peso Uruguayo)	9.8499	6.1600	4.4085	7.3116
Vanuatu	(Vatu)	178.283	111.500	79.7968	132.344
Vatican	(Lira)	2607.89	1631.00	1167.25	1935.91
Venezuela	(Bolivar)	271.478	169.785	121.509	201.525
Vietnam	(Dong)	17929.6	11213.0	8024.76	13309.2
Virgin Is-British	(US $)	1.5990	1	0.7157	1.1869
Virgin Is-US	(US $)	1.5990	1	0.7157	1.1869
Western Samoa	(Tala)	3.9462	2.4673	1.7658	2.9286
Yemen (Rep of)	(Rial)	80.3497o	50.2500	35.9622	59.6439
Yemen (Rep of)	(Rial)	223.860r	140.000	100.193	166.172
Yugoslavia	(New Dinar) (1)	-	-	-	-
Zaire Rep	(Zaire)	5931.49	3709.50	2654.76	4402.97
Zambia	(Kwacha)	1416.71	886.000	634.080	1051.63
Zimbabwe	($)	13.6225	8.5194	6.0970	10.1120

Special Drawing Rights June 8, 1995 Utd Kingdom £0.979181 Utd States $1.56617 Germany DM2.20356 Japan Y132.600 European Currency Unit Rates June 9, 1995 Utd Kingdom £0.833713 Utd States $1.33061 Germany DM1.86484 Japan Y112.596

Abbreviations: (a) Free rate; (m) Market rate; (o) Official rate; (p) Parallel rate (t) Tourist rate (u) Currency fixed against the US Dollar (v) Floating rate; ‡ Russia applies to states in the Rouble Zone. (1) Yugoslav Dinar rate n/a. (2) Official fixed rate introduced on May 22. Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries: 0171 634 4380/5. To obtain a copy of this table by Fax from the Cityline service dial 0891 437001. Calls charged at 39p/minute cheap rate, 49p/minute at all other times Friday, June 9, 1995

WORLD BOND MARKETS: This Week

NEW YORK
Maggie Urry



*All yields are market convention
Source: Merrill Lynch

The US Treasury market ended last week on a sour note as hopes of a cut in interest rates receded following comments from the chairman of the Federal Reserve. The yield on the 30-year bond rose from 6.5 per cent on Wednesday morning to more than 6.7 per cent on Friday evening.

More evidence of the economy's strength will be offered this week in a heavy round of statistics.

Tuesday brings retail sales and inflation numbers for May. MMS International says the median forecast for retail sales is for a rise of 0.6 per cent, or 0.4 per cent excluding motor vehicles. That would represent a rebound from the depressed level of April sales.

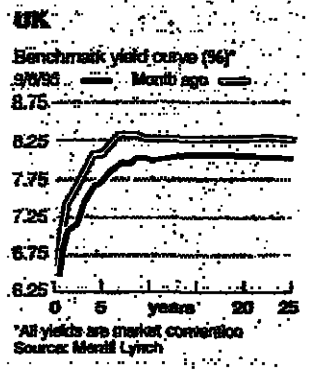
The consumer prices index is predicted to show a 0.3 per cent rise, which should not cause concern, especially after Friday's producer prices index showed inflation under control.

Manufacturing industry statistics will be watched closely. On Wednesday, April business inventories are expected to be up 0.7 per cent.

On Thursday, industrial production for May is forecast to be down 0.3 per cent while capacity utilisation, one of the statistics the Fed focuses on most carefully, is expected at 83.6 per cent, down from 84.1 per cent in April.

The market will also be looking for significance in any remarks made at the G7 meeting in Halifax, Nova Scotia, starting Thursday.

LONDON
Richard Lapper



*All yields are market convention
Source: Merrill Lynch

A plunge in gilts prices at the end of last week left participants in the UK government bond market wondering whether the recent rally is over.

The September 10-year gilt future lost more than a point on Thursday and $2\frac{3}{16}$ points on Friday, with yields in the cash market rising above the 8 per cent barrier and the spread over German bunds widening from 147 to 157 basis points.

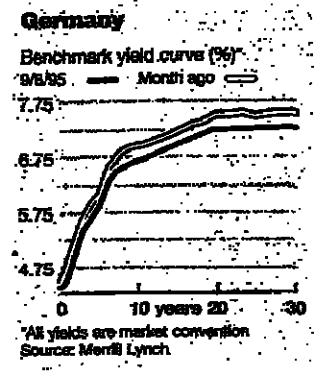
Developments in the US were seen as largely responsible by analysts, with mildly disappointing UK economic data leading to a further deterioration in sentiment.

Mr Nigel Richardson, head of bond research at Yamaichi International (Europe), said comments on Wednesday by Mr Alan Greenspan, chairman of the US Federal Reserve, had an important impact, indicating that the US is not entering recession and that an imminent rate cut is unlikely.

This week, a raft of UK economic data will occupy the market's attention. Producer price figures are due on Monday, average earnings and unemployment statistics on Wednesday and consumer price and retail sales figures on Thursday. Disappointing figures are likely to lead to further underperformance.

Mr Richardson said the retail sales figures could be the most important. "If they bounce back, it could be a negative sign for gilts," he said.

FRANKFURT
Andrew Fisher



*All yields are market convention
Source: Merrill Lynch

The Bundesbank is not expected to do anything this week – although economists have mostly factored a further interest rate cut rate this year into their calculations – but it will have something to say. It will hold a press conference after its Magdeburg meeting, as it always does when meeting outside Frankfurt.

The strength of the D-Mark has reinforced the battle against inflation, still at an annual rate of just above the central bank's 2 per cent target, but it has also caused economic growth forecasts to be revised downwards.

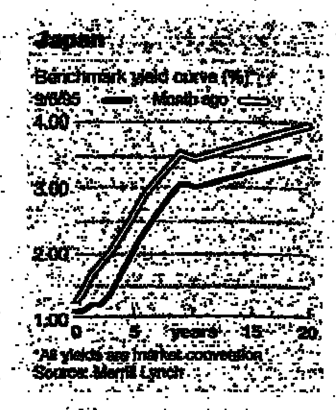
Bundesbank directors commonly make equivocal statements about interest rate policy, but there was no mistaking the words of one of them last week.

Mr Johann Wilhelm Gaddum said inflationary dangers had not yet been warded off; consumer prices were moving favourably, but there was still pressure in the pipeline from producer prices.

Thus the Bundesbank should not react too quickly, so its policy became easy to read, he added.

There has been speculation that a cut in rates could be made to help the dollar, especially with the G7 summit about to start in Canada, but any relief would be short-lived and the Bundesbank dislikes acting for exchange rate reasons. A weakening economy and softer inflation could prompt a move later, though.

TOKYO
Emiko Terazono



*All yields are market convention
Source: Merrill Lynch

Financial markets were unconvinced by last week's quarterly survey of business sentiment, which suggested that a mild economic recovery is still in place. Shares continued their descent while bonds saw dealer buying.

"Given the appreciation of the yen and a slew of articles on manufacturers moving production overseas, it is difficult to believe that business conditions really improved over the last three months or that companies have actually revised up their domestic capital expenditure plans," says Mr Brian Rose at S.G. Warburg Securities.

The weakness in equities, which were also hit by the lack of new measures in the government's bad loan clean-up package announced last week, is expected to support bonds. The banking package left investors feeling that the disposal of the banks' bad loans would take longer than expected, raising fears over the economy.

Both long and short-term yields are likely to decline amid such pessimism. The yield on the 10-year benchmark could test the 2.685 per cent level seen on May 31, while the Bank of Japan may lead the overnight call rate down to 1 per cent if the Nikkei falls below 15,000.

Tuesday's monthly economic report by the Economic Planning Agency will provide the government's view of current economic conditions.

Syndicated loans

Borrowers benefit from stiff competition

The round of refinancing continues in the syndicated loans market as borrowers seek to make the most of the stiff competition among banks to cut borrowing costs and relax covenants. The Bank of England has recently warned banks about the risks associated with this trend.

Some bankers say borrowers are in danger of going too far and may put long-term relationships at risk. For example, a £275m four-year refinancing for MEPC, the UK property company, has met hostility from some banks because its structure gives the borrower excessive power.

"This market has given a lot to borrowers but this structure is allowing them to take out the last cent," said one banker.

Rothschild, which has invited 14 banks into the deal, is confident of a good turnout, however, and is also talking to other companies about the structure. The so-called "flexible participation facility" structure, first used last year by John Lewis, the UK retailer, enables borrowers to reset pricing during the life of the loan.

The margin on £75m of the total amount of MEPC's loan is fixed at 47½ basis points until February 1997 and then rises to 50 basis points until May 1999, when the loan matures.

However, the margin on the remaining £200m is variable and banks will be asked to make bids on their commitments at the start of the loan and again in February 1998.

Among other companies seeking to refinance, BET plc has asked Chemical, the arranger of its current facility, to set up a new £200m five-year facility.

Barclays and Société Générale are arranging a £100m five-year facility for Saab Finance, the UK arm of the Swedish car company. This deal partly refinances a £57.5m facility signed in December 1993. Saab is believed to have made a significant saving.

INI, the Spanish state industrial holding company, is looking for a $750m seven-year facility with a margin of about ¼ over Libor. BBV, Citibank, J.P. Morgan and UBS are believed to be in the running.

Chemical and Sumitomo are syndicating a debut facility for Stockholm Energy, which is owned by the City of Stockholm. The margin on the $300m seven-year deal for the first five years is 17½ basis points over Libor, rising to 20 points in the last two years. The commitment fee is 8¾ points, rising to 10 points.

Elsewhere, the size and pricing on a syndicated loan for Transnet, the South African state-owned transport group, has highlighted the eagerness among banks to establish relationships with the country since the end of apartheid.

Eight to 10 banks have been invited to underwrite the $200m loan, which will have a term of three years, the current limit for South African borrowers. The underwriting commitment is believed to have been set at $25m.

Some bankers noted that the arranging group is rather large considering the size of the loan. There was also some discussion about whether there would be sufficient appetite in general syndication to allow arrangers to scale back their commitments.

Sumitomo is to co-ordinate the group and Fuji, Hill Samuel, Royal Bank of Scotland and NatWest are believed to be among the banks invited. A group should be in place by the end of the week.

As well as size, Transnet has obtained what bankers say is an aggressive margin of 60 basis points over the London interbank offered rate (Libor). This compares with the 75 points over Libor which South Africa's state-owned Industrial Development Corporation (IDC) obtained on a three-year $50m facility in April. Transnet will pay underwriting fees of 15 basis points and up-front fees of 20 points.

Some bankers say concerns about Transnet's loan are unfounded because so many banks want to strengthen their ties with South Africa. However, they say the success of the deal depends on a strong arranging group which has a clear syndication strategy.

The healthy response to IDC's loan when it entered general syndication should also bode well for Transnet, although its loan is much smaller. IDC's loan is now at the documentation stage and should be signed before the end of the month.

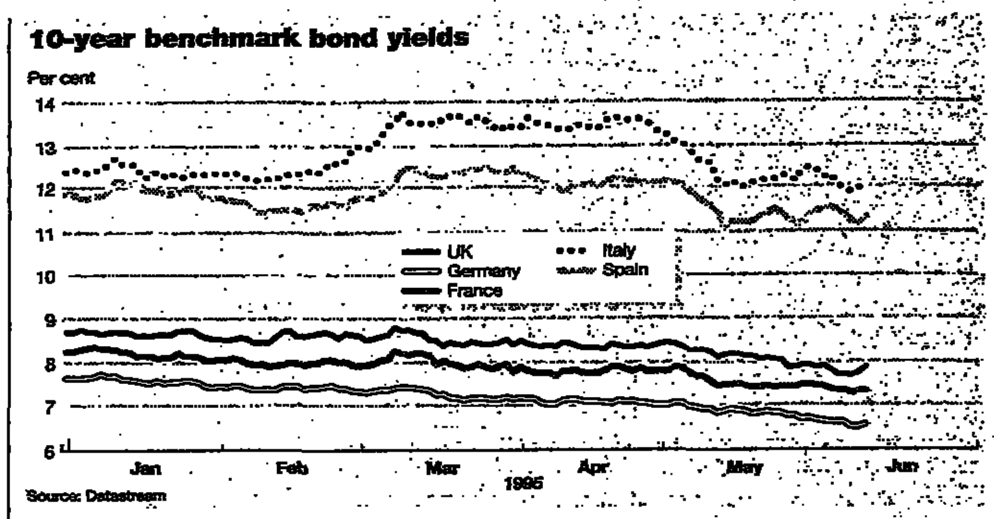
Fuji, which arranged the deal with Henry Ansbacher, declined to disclose the final commitments but said the response meant IDC could increase the loan to between $60m and $100m without taking up the total commitments.

The trend among banks to look down the credit spectrum is also working in favour of Turkey, which only one year ago experienced a severe financial and economic crisis and lost its investment-grade rating. Margins on deals for Turkish banks have come in by about 30 basis points in a matter of months, though there is little evidence that banks are willing to lend money for more than one year.

Margins for Turkish credits are now close to levels last seen in 1993. This raises the question of whether pricing is coming down too quickly considering Turkey is still in a recovery phase.

Antonia Sharpe

10-year benchmark bond yields



Source: Datastream

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.25	1.00	4.00	8.40(1)	8.25	6.75(2)
Overnight	6.00	1.22	4.50	7.50	10.50	6.75
Three month	5.76	1.12	4.37	7.22	10.57	6.44
One year	5.86	1.03	4.40	6.60	11.00	7.12
Five year	6.15	2.11	5.93	7.07	12.10	7.90
Ten year	6.34	2.87	6.76	7.41	12.29	8.13

(1) France-Repo rate. (2) UK-Base rate. Source: Reuters.

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	114-06	112-18	-1-26	114-06	112-12	41,521	108,161
Sep	113-25	112-08	-1-25	113-28	112-02	339,661	304,736
Dec	113-06	111-27	-1-21	113-10	111-21	999	17,771

Russian debt

T-bills set to test strength of demand

Mr Andrei Kozlov, a deputy chairman of Russia's central bank, has little doubt about the importance of the two-year-old government debt market. "This is the most successful project in the history of Russian economic reform," he says.

Although Mr Kozlov may be stretching the point, there is no doubt that the creation of Russia's Treasury bill market has been a powerful weapon in the government's struggle to introduce sound public finances and combat inflation.

In 1993, the government was able to raise Rbs105.5bn of non-inflationary finance by selling Treasury bills. That jumped to Rbs5,700bn last year but the government now intends to test the market to the full: it is accelerating its programme to cover the bulk of this year's Rbs32,000bn financing needs.

"The Russian government is moving from monetising the government deficit to capital markets financing within two years. That is pretty impressive," says Mr Dirk Damrau, director of emerging markets research at Salomon Brothers in London.

In contrast to Russia's infamously ramshackle equity market, the market for government bonds (GKOs) has won acclaim for its sound trading and settlement arrangements.

"It is not the most sophisticated infrastructure of any emerging market but it is definitely in the second tier. It is far from being a rinky-dink operation," says one trader.

The GKO market has been through some testing times, with yields rising above 300 per cent earlier this year as the monthly inflation rate peaked at almost 18 per cent and traders feared the financial consequences of the Chechen war. Some observers suggested the market was comparable with Russia's notorious pyramid selling schemes, where new money was being raised simply to pay off earlier obligations.

But the government's fierce monetary squeeze has helped cut inflation to below 8 per cent in May and it is likely to fall further. The bond market has responded impressively, with yields on government debt tumbling to 70 per cent – perhaps giving the government a chance of attaining its financing targets this year.

The central bank is now trying to take advantage of the benign market by offering longer-term securities to a broader range of investors.

Last month, Mrs Bella Zlatkis, head of the securities department at the Ministry of Finance, detailed plans to launch several new securities, including two-year notes with a floating coupon rate pegged to the current yield in the T-bill market; three-year gold-backed bonds, secured on Rbs2,000bn of gold deposits; and three-year floating-rate notes which may be denominated in US dollars to help soak up almost $20bn of domestic savings.

This week also sees the introduction of OFZ bonds with a redemption period of more than one year.

"The maturities will extend as people have more confidence in the longer-term inflation outlook. You simply cannot run the country on three to six-month money when it takes two years just to build a hotel," says Mr Peter Derby, chairman of Dialog Bank, which helped create the GKO market.

The central bank is also helping to improve liquidity by extending trading beyond Moscow, with five other regional centres in St Petersburg, Novosibirsk, Vladivostok, Rostov-on-Don, and Yekaterinburg establishing trading floors.

Merrill Lynch, the US investment bank, is also advising the Russian government on how to coax more foreign investors into Russia and how to tap the international capital markets.

But although economists applaud the GKO market's development and praise the government's strict adherence to its stabilisation programme – backed by a $6.8bn International Monetary Fund stand-by fund – some say the picture is now being clouded by Russia's exchange rate policy.

Incredible though it would have sounded a few months ago, currency traders fear the rouble is appreciating too fast.

"It was worrying when the rouble was at Rbs4,950 against the dollar. But at Rbs4,881 it is scary. Unless inflation falls very quickly, this exchange rate is unsustainable and something has to give," says Mr Thomas Reed of AIOC Capital, a Moscow-based securities house.

Mr Sergei Glazyev, a former government minister and parliamentary leader, said it was "an economic absurdity" for the rouble to strengthen while inflation was still high and industrial output continued to fall.

He described the current economic situation as "a bluff for the sake of short-term political dividends" and forecast a repeat of last October's "Black Tuesday", when the rouble lost more than one-fifth of its value in one day.

But, on Friday, Mr Anatoly Chubais, the first deputy prime minister in charge of economic policy, chided his critics for being too pessimistic and pointed to signs that industrial production was recovering to justify the stronger rouble. With between $9bn and $10bn of hard currency reserves, the central bank has a lot of ammunition to defend its line.

Whichever view prevails, the next few weeks will be important for the country's fledgling government debt market and critical for the course of Russian economic reform.

John Thornhill

NEW INTERNATIONAL BOND ISSUES

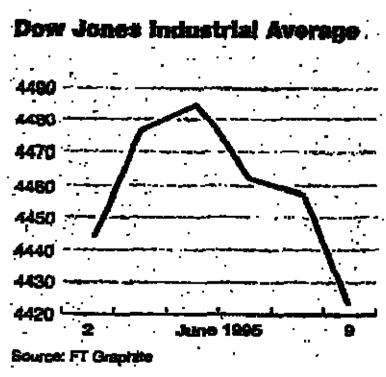
Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
Dean Witter, Discover & Co.‡	300	Jun.2000	(a)	99.68R	-	-	Morgan Stanley Intl.
Toyota Motor Credit Corp.	300	Jun.1998	5.875	100.01R	5.871	+15(6⅛%-98)	Merrill Lynch Intl.
NTT	250	Jun.2000	6.00	99.652R	6.083	+20(6¼%-00)	Merrill Lynch/ SBC
Chemical Banking Group(b)‡	300	Jul.2000	(b1)	99.935R	-	-	Chemical Inv. Bank
BBV International Finance‡	100	Sep.2004	(d,s)	99.62R	-	-	Salomon Brothers Intl.
Xerox Corp.	200	Jun.2000	6.50	99.69R	6.575	+50(6⅛%-00)	Merrill Lynch Intl.
National Power Corp.	150	Jul.2002	9.00#	99.288R	9.140	+305(7½%-02)	JP Morgan Securities
Banco Safra	100	Jun.1997	9.75#	100.00R	9.750	+392(6½%-97)	Swiss Bank Corp./ UBS
YEN							
Eksportfinans★	50bn	Jul.2002	2.65	100.10R	2.634	-	Fuji Intl./ Yamaichi
Tokai Fin.(Curaçao)Tr.A(g)★‡	10bn	undated	(g1,s)	100.00	-	-	Salomon/ Tokai Bank
Tokai Fin.(Curaçao)Tr.B(h)★‡	17bn	undated	(h1,s)	100.00	-	-	Daiwa/M.Stanley/Tokai
Tokai Fin.(Curaçao)Tr.C(i)★‡	5bn	undated	(i1,s)	100.42	-	-	Lehman/ Tokai Bank
STERLING							
European Investment Bank(e)	100	Nov.2001	8.50	103.529	7.762	+7(7%-01)	HSBC Markets
Eastern Group(s)	200	Mar.2025	8.50	98.855R	8.614	+60(8¾%-17)	BZW
D-MARKS							
Crédit Local de France	500	Jul.2000	5.875	99.80R	5.922	+30(6½%-00)	ABN Amro/ Trinkaus
Sudwest. LB Cap.Mkts.(f)	500	Jul.1999	5.625	99.90R	5.653	+20(6⅛%-99)	SBG (Deutschland)
Oest. Postsparkasse	300	Jul.2000	5.75	99.60R	5.845	+22(6½%-00)	CSFB-Effectenbank
Baden-Württemberg L-Fin.	1.5bn	Jun.2005	6.75	99.76R	6.784	+24(6⅞%-05)	Dresdner/ M. Stanley
National Bank of Hungary	500	Jun.2001	9.00	99.75L	9.058	+244(8⅞%-01)	Deutsche Bank
International Finance Corp.	500	Jul.2000	5.75	99.661R	5.830	+20(6½%-00)	Deutsche/ JP Morgan
Deutsche Ausgleichsbank	300	Jul.2005	6.75	102.15	6.452	-	Bayerische Landesbank
GECC	200	Jul.2000	5.875	99.937R	5.890	+37(6½%-00)	JP Morgan
LW Rentenbank(f)	250	Jul.1999	5.00	99.23	5.218	-	DG Bank
Exe Finance Co.(j)‡	125	Aug.1999	(j)	100.25	-	-	JP Morgan
City of Copenhagen	100	Jul.2000	6.00	99.70R	6.071	+34(6½%-00)	ABN Amro Hoare Gvt.
FRENCH FRANCS							
France Telecom	150	Jul.1999	4.625	103.40	3.695	-	Credit Suisse
Compagnie Générale des Eaux	1bn	Jul.2005	7.50	98.64R	7.700	+35(7½%-05)	Deutsche Bank France
SWISS FRANCS							
Oest. Postsparkasse	100	Jul.2005	5.00	103.65	4.538	-	UBS
ITALIAN LIRE							
Telecom Argentina(k)‡	150bn	Jun.1997	(k1)#	99.375R	-	-	BCI/ Chase Inv. Bank
CANADIAN DOLLARS							
LB Rheinland Pfalz	100	Jul.2005	8.00	99.075R	8.139	+24(9%-04)	Paribas Capital Markets
GUILDERS							
Dresdner Finance	300	Jul.2003	6.625	99.73R	6.670	+22(6½%-03)	ABN Amro Hoare Gvt.
LUXEMBOURG FRANCS							
Kredietbank Luxembourg	2bn	Jul.2001	6.50	102.45	6.002	-	Kredietbank Lux.
Cregem International Bank(s)	2bn	Jun.2001	6.50	102.45	6.00	-	Cregem Intl. Bank
Banque Indosuez	2bn	Jul.2001	6.75	102.20	6.298	-	BCEE
GECC(l)	2bn	Dec.2001	6.75	102.45	6.25	-	Bq. Paribas Lux.
AUSTRALIAN DOLLARS							
Swedish Export Credit	180	Jun.1998	4.50	92.40	7.418	-	New Japan Securities
New Sth.Wales Treas.Corp.★	100	Jun.1998	4.50#	92.078	7.498	-	Nomura International
ESCUDOS							
Official Credit Institute(c)‡	20bn	Jul.2000	(c1)	100.00	-	-	BSN Portugal

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ♦With equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. L: Pricing level. a) 3-mth Libor +30bp. b) Callable on coupon dates from Jul.98 at par. b1) 3-mth Libor +15bp. c) ...of Spain. c1) 6-mth Lisbor -7.5bp. d) 6-mth Libor +40bp. e) Fungible with £200m. Plus 225 days accrued. f) 3-mth Libor +42bp. g) Callable on coupon dates from 20/9/05 at par. g1) 6-mth Libor +30bp to 20/9/05, +100bp to 20/9/10 and +150bp thereafter. h) Callable on coupon dates from 20/9/00 at par. h1) 6-mth Libor +30bp to 20/9/00, +100bp to 20/9/05 and +150bp thereafter. i) Over interpolated yield. j) Callable on coupon dates from 20/9/07 at par. j1) 4.03%pa to 20/9/07, 6-mth Libor +100bp to 20/9/12 and +150bp thereafter. k) Puttable on 27/12/96 at par. k1) 14¼%pa to 27/12/96 and 6-mth Libor +300bp thereafter. l) Long 1st coupon. s) Short 1st coupon. Note: Yields are calculated on ISMA basis.

EQUITY MARKETS: This Week

NEW YORK — Lisa Bransten

Retail sales to give further clue on rates



Source: FT Graphite

Last week the stock market swung up and down on speculation and rumour. This week it may swing again as investors reassess their views of the economy, but at least they will have some economic statistics on which to base their judgments.

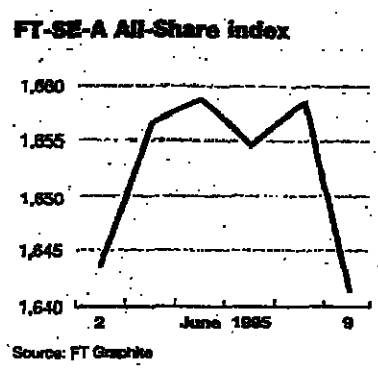
One of the most important pieces of data to be released this week will be the figures on retail sales due tomorrow. Economic data released so far this month – including the employment report that showed a 101,000 decrease in jobs for May – have indicated that the economy is slowing quickly and have led to speculation that the Federal Reserve will lower interest rates as early as July.

Many economists, however, believe that rising consumer spending might revive the economy without a rate cut. The median forecast among analysts is that retail sales will have risen by 0.6 per cent to reverse April's 0.4 per cent fall. If the figure is substantially lower, it could lead to renewed talk of an early interest rate cut.

Also due to be released tomorrow is the Consumer Price Index for May. Investors will look carefully at the figure because it is the primary measure of inflation, but it will not necessarily move the market because it does not provide much information about the future direction of the economy. Economists expect CPI growth to have slowed to about 0.3 per cent from 0.4 per cent in April.

LONDON — Philip Coggan

Looking for confirmation of slowdown



Source: FT Graphite

The London equity market starts the week in need of a pick-me-up after a sharp fall on Friday, in the wake of weak bond markets and Wall Street.

The US markets will continue to be a substantial influence but this week, traders will have some important UK economic data to get their teeth into – notably retail prices, producer prices, average earnings and retail sales.

Since Mr Kenneth Clarke, the chancellor of the exchequer, and Mr Eddie George, the governor of the Bank of England, met in May, economic data have supported the chancellor's view that the UK economy is slowing.

Any sign in this week's statistics of robust activity or price pressures will put a dent in that theory and revive fears of rise in interest rates.

A change in interest rate sentiment would add to the factors encouraging a correction to London's recent rally which, by last Thursday, had lifted the FT-SE 100 index by 400 points since early March.

Even last week's bid activity – actual, in the case of GEC's offer for submarine maker VSEL and rumoured, in the case of the sharp rise in the share price of Zeneca – did little for the overall market.

The yield on the 10-year gilt climbed back above 8 per cent on Friday and with equity yields still below 4 per cent (on the All-Share), shares may have difficulty making progress in the short term.

International offerings

Competition hots up for mouth-watering mandates

Equity syndicate managers' travel budgets will have to be generous this summer to cover all the shuttling around Europe in the hunt for lucrative mandates.

Those who emerge from these "beauty contests" as the global co-ordinators of the jumbo deals waiting in the wings will be more than amply compensated for the frustrations of hanging around airport waiting lounges, holding client presentations in foreign languages and working around the clock to perfect their pitch.

"All those big European privatisation deals have a lot of people frothing at the mouth," said one banker. "Everyone's throwing people and money at them like there's no tomorrow."

In many cases, preparing presentations to the issuer can keep large teams of syndicate officials, analysts, corporate financiers and other assorted number-crunchers tied up for weeks.

"On a recent pitch we had to get in people from all over the organisation and practically lived in the office, surrounded by empty pizza boxes and hamburger wrappers, just to get the document out," says one banker.

The cost of these self-promotion campaigns can run into thousands of dollars a day, especially when investment banks' top-level executives are flown in to support the effort.

"On a big deal, a pitch can easily be worth more than $100,000," says one banker. Some large banks with higher overheads often don't even compete for the smaller issues because they are unlikely to cover their costs.

For the winner, the effort and cost are well-spent. With total fees – including selling, management and underwriting commissions – on most European privatisation offerings averaging about 3 to 3½ per cent of the issue size, those heading the deal stand to make a tidy sum. Up to 85 per cent of the fees can go to the global co-ordinator, with the balance divided among the 10 to 15 other banks involved at co-lead and co-management level.

"The economics are very much skewed towards the global co-ordinator – it's the winner-takes-all principle," says a dealer.

But in fact, the runners-up can also do well. "The good thing about equity deals is that you can always win a second prize," unlike in the mergers and acquisitions business, where banks either get the deal or walk away empty-handed, says a banker.

On a large deal, the "consolation prize" for a co-lead manager can more than cover its costs. So even when they know they are unlikely to get the top job, many banks compete for the job of global co-ordinator in the hope of being appointed as high up in the syndicate structure as possible.

Moreover, "there's always the incentive of the next deal – if we do a good job as co-lead, we could be considered for global co-ordinator for a follow-on tranche", says another.

But while mouth-watering mandates abound, the number of investment banks deemed able to handle such large share offerings is limited. This has raised the spectre of a conflict of interest for banks pitching for mandates while they already hold mandates for other sales which could be in the same industrial sector or be issued at the same time.

This conflict is at its strongest in the telecoms sector, which is facing a flood of privatisation offerings worth some $30bn in the next 12 months.

"Some issuers feel that if they award a mandate to a bank, they want the full attention of the firm that gets it," says one dealer. Issuers' fears are sometimes exacerbated by beauty contestants warning issuers not to appoint banks that already hold mandates for other large deals.

"It's a case of reverse marketing, where *not* having a mandate becomes a selling point for some houses!" says one banker. The opposite can also be true, however. "Sometimes issuers will appoint people because of their industry experience and because they have been awarded a mandate for a similar deal by a similar company," says a dealer. "It cuts both ways."

As the market continues to mature, however, issuers may find that bankers, especially at the big houses, can juggle more than one deal at a time.

"We are very used to working on several transactions at any one time, but there are some people who feel that if you have one telecom mandate you can't work on anything else," says a US banker.

That line of thinking often rules out the strongest candidates, who already have large mandates, and means picking second-tier houses with possibly weaker placement power, he says. "Issuers should recognise that the top-tier houses can deal with this situation and have the resources to avoid a conflict of interest."

In this light, bankers are keenly watching the appointments of the global co-ordinators for the forthcoming privatisation sales of Italy's oil and gas group Eni (estimated at $3bn-$4bn), its telecoms giant Stet ($6bn-$8bn), Spain's Telefonica ($1bn) and KPN, the Dutch telecoms operator ($4bn) – all expected by the year-end.

The appointment of global co-ordinator for the Stet sale highlights the difficulty of picking a strong bank that is not already involved in another closely-timed deal.

Stet has not short-listed Goldman Sachs as global co-ordinator for its offering; Goldman already has a full plate with Deutsche Telekom's 1996 deal, seen totalling $10bn, Indonesia's PT Telkom, estimated at $2bn, later this year and the advisory role in KPN.

Merrill Lynch may be "conflicted" by its mandate to lead-manage the sale for Italy's electricity utility Enel, dealers say, and Morgan Stanley, while expected to obtain a senior position in the Stet syndicate, is unlikely to be global co-ordinator as it is advising the company on the sale.

This leaves a group including BZW, J.P. Morgan, Lehman Brothers, Paribas, Salomon, S.G. Warburg and UBS competing for the mandate.

Conner Middelmann

OTHER MARKETS

FRANKFURT

Last week's interest rate reductions by the Dutch and Belgian central banks have spurred expectations of a cut by the Bundesbank in coming weeks.

UBS notes that recent speeches by Mr Hans Tietmeyer, president of the Bundesbank, and other council members have suggested that there might be another easing in official rates if M3 growth remains subdued and inflation continues to behave well.

However, the bank feels that this Wednesday's Bundesbank council meeting is too early for such a move and that the Buba might wait until after the summer break.

James Capel notes that Mr Tietmeyer has said that interest rate decisions will rest squarely on money supply, whether there are inflationary pressures and the international situation.

Consequently, in Capel's view, there is little case for a further cut, although it would be foolish to rule out such a move in the near term.

In a week largely bereft of corporate news, Karstadt, Germany's largest retailer, holds its balance sheet press conference today.

AMSTERDAM

Ahold's first-quarter figures are due out on Friday and in common with many other Dutch companies exposed to the US dollar, it will be expected to reveal a weakness due to volatility in the currency markets, *writes John Pitt.*

The food retailing group derives some 50 per cent of its sales and 80 per cent of its net profit from the US and, estimates James Capel, a 15 per cent fall in the dollar translates into a 4.5 per cent decline in Ahold's net profit in guilders. Paribas expects management to improve operating margins in Holland, restructure the US divisions and rationalise peripheral activities to lift earnings by 15 per cent per annum over the next three years.

ZURICH

The moment of truth for the two-track spin-off plan for the industrial chemicals division of Sandoz has arrived, *writes Ian Rodger.*

Top executives of the division, to be called Clariant if it becomes independent, have sounded out the world's biggest investment institutions on what they might pay for shares in the new company. On Thursday, together with Sandoz executives, they are to fix a narrow price range for book-building – unless, that is, Sandoz bosses have already convinced another big chemicals group to buy the division outright at a more attractive price.

HELSINKI

Results for the first four months come on Friday from Nokia, the telecommunications group whose shares have rocketed by 770 per cent since the start of 1993.

Analysts who are forecasting pre-tax profits of FM1.4bn to FM1.6bn for the period, after FM969m last year, will be watching for evidence of a continued turnround of the consumer electronics business, the rate of growth for cellular communications and the size of the order book.

Four-month figures also come today from Metra, the industrial group, and tomorrow from Kemira, the chemicals group. Rautaruukki, which has announced that it is to invest FM1.75bn to increase its steel capacity by half a million tonnes, reports on Wednesday and Metsä-Serla details its four-month figures on Thursday.

HONG KONG

Share prices are expected to continue consolidating this week, in spite of last Friday's agreement on the setting up of the Court of Final Appeal, *writes Louise Lucas.*

Although agreement on the court, which replaces Britain's Privy Council upon Hong Kong's return to Chinese sovereignty in July 1997, is good news for business confidence, dealers said the outcome had already been anticipated by the market.

Instead, investors are likely to focus on the take-up of Cheung Kong's latest release of flats at Kingswood Villas, which are priced at the low end of market expectations and carry attractive repayment terms.

Some 200 flats are on offer, although more may be released – depending on the level of subscription. This will provide a pointer for the health of the property sector.

Investors will also continue to monitor US economic data to assess the likelihood of an interest rate cut, which would filter through to Hong Kong via the US$ currency peg.

However, profit-taking is expected to keep prices in check as investors cash in on what has been a good run – Hong Kong was the best performing developed stock market last month, according to rankings compiled by Morgan Stanley, rising 12.8 per cent.

TOKYO

Last week saw a wave of selling by overseas investors, the only prominent buyers of Japanese shares this year, *writes Emiko Terazono.*

Traders expect further selling of the earnings growth-related stocks which overseas investors bought earlier in the year.

Meanwhile, domestic institutions have also been on the sell side, and results for the country's life assurers this week will outline their problems.

Life insurers already suffer negative returns on their investments, and latent profits on stock holdings are expected to have declined as they have been realising gains to cover for the negative yields.

"There is little appetite among domestic investors for any sort of risk," says Mr Tom Hill, strategist at S.G. Warburg Securities. This includes the equities and foreign currency-denominated assets.

Compiled by Michael Morgan

CONTRACTS & TENDERS

WORLD STOCK MARKETS

EUROPE

[illegible]

PACIFIC

[illegible]

INDICES

	Jun 9	Jun 8	Jun 7	1995 High		1995 Low	
Argentina							
General (29/12/77)	14095.24	14393.81	14372.02	16531.10	2/1	9831.09	9/3
Australia							
All Ordinaries(1/1/80)	1984.5	1998.2	2015.6	2077.50	9/5	1823.30	8/2
All Mining(1/1/80)	863.2	873.1	878.6	952.50	19/4	795.30	8/2
Austria							
Credit Aktien(30/12/84)	380.33	382.33	383.93	395.42	2/1	350.32	30/3
Traded Index(2/1/91)	1036.25	1042.45	1042.79	1058.31	2/1	934.83	30/3
Belgium							
BEL20 (1/1/91)	1419.62	1430.41	1443.93	1468.74	12/5	1271.53	9/3
Brazil							
Bovespa (29/12/83)	36707.0	38185.0	38082.0	43190.00	2/1	21382.00	9/3
Canada							
Metals Minls♦(1975)	4301.78	4342.39	4350.52	4381.48	6/6	3806.63	1/3
Composite♦ (1975)	4463.80	4479.9	4476.3	4484.88	6/6	3991.41	30/1
PortfolioSS (4/1/83)	2208.56	2219.23	2205.59	2219.23	8/6	1948.38	31/1
Chile							
IGPA Gen (31/12/80)	6102.1	6092.6†	6138.9	6191.00	6/6	4576.90	9/3
Denmark							
CopenhagenSE(3/1/83)	356.97	358.54	358.86	360.87	26/5	330.01	29/3
Finland							
HEX General(28/12/90)	1883.0	1897.3	1886.2	1940.30	10/1	1555.30	29/3
France							
SBF 250 (31/12/90)	1270.73	1295.57	1307.94	1322.30	12/5	1153.14	10/3
CAC 40(31/12/87)	1897.02	1951.19	1974.69	2017.27	12/5	1721.80	13/3
Germany							
FAZ Aktien(31/12/58)	781.02	782.80	786.54	795.81	16/2	708.87	30/3
Commerzbank(1/12/53)	2238.8	2245.8	2257.0	2269.00	16/2	2018.70	30/3
DAX (30/12/87)‡	2121.75	2130.97	2141.07	2146.40	6/6	1910.98	28/3
Greece							
Athens SE(31/12/80)	903.09	895.92	893.13	955.01	8/5	787.15	18/3
Hong Kong							
Hang Seng(31/7/64)	9267.62	9292.78	9382.58	9670.37	5/6	6967.93	23/1
India							
BSE Sens.(1979)	3337.71	3359.27	3388.48	3932.09	2/1	3015.07	2/5
Indonesia							
Jakarta Comp.(10/8/82)	491.75	489.09	495.51	497.26	5/6	414.21	19/4
Ireland							
ISEQ Overall(4/1/88)	1952.26	1960.08	1954.33	1960.08	8/6	1813.59	23/1
Italy							
Banca Comm Ital (1972)	620.40	621.91	624.11	680.54	10/2	587.99	23/3
MIB General (2/1/85)	982.0	984.0	987.0	1079.00	10/2	929.00	23/3
Japan							
Nikkei 225 (16/5/49)	15044.18	15442.30	15879.62	19723.08	2/1	15044.18	9/6
Nikkei 300 (1/10/82)	227.51	231.50	235.59	287.17	2/1	227.51	9/6
Topix (4/1/68)	1223.75	1245.31	1263.34	1559.09	2/1	1223.75	9/6
2nd Section (4/1/68)	1497.53	1512.00	1529.30	2133.66	3/1	1497.53	9/6
Malaysia							
KLSE Comp.(4/4/86)	1054.36	1061.19	1057.80	1085.04	5/6	840.87	24/1
Mexico							
IPC (Nov 1978)	(u)	1979.73	1989.80	2354.25	2/1	1447.52	27/2
Netherland							
CBS TtlRtnGen(End 83)	471.8	474.9	474.0	478.18	1/6	422.90	23/3
CBS All Shr (End 83)	289.0	290.9	290.3	291.70	1/6	265.20	23/3
New Zealand							
Cap. 40 (1/7/86)	2082.84	2111.29	2111.76	2155.79	18/5	1901.43	5/1
Norway							
Oslo SE(Ind)(2/1/83)	1175.43	1180.74	1181.60	1185.64	15/5	1036.00	10/3
Philippines							
Manila Comp (2/1/85)	2832.17	2839.47	2838.65	2877.33	6/6	2246.38	27/3
Portugal							
BTA (1977)	2790.7	2809.7	2811.5	2911.60	9/1	2682.40	26/1
Singapore							
SES All-S'pore(2/4/75)	522.0	527.54	525.64	536.09	5/1	472.90	23/1
South Africa							
JSE Gold (28/9/78)	1355.7♥	1364.1	1367.6	2023.09	2/1	1317.20	22/5
JSE Indl. (28/9/78)	6840.9♥	6906.9	6960.4	7055.20	3/5	6222.90	31/1
South Korea							
KoreaCmpEx(4/1/80)**	886.83	830.68	899.36	1027.37	2/1	847.09	27/5
Spain							
Madrid SE (30/12/85)	298.35	298.15	297.07	302.20	24/5	284.06	23/3
Sweden							
AffarsvarldsGen (1/2/37)	1606.80	1602.10	1602.5	1609.80	2/6	1439.80	29/3
Switzerland							
Swiss Bk Ind (31/12/58)	1296.15	1297.88	1301.03	1303.37	1/6	1174.63	13/3
SBC General (1/4/87)	977.48	980.25	984.16	984.16	7/6	870.58	13/3
Taiwan							
WeightedPr.(30/6/66)**	5609.79	5641.02	5681.58	7124.66	3/1	5524.07	27/5
Thailand							
Bangkok SET (30/4/75)	1394.50	1396.79	1402.39	1408.26	5/6	1135.69	16/3
Turkey							
Istanbul Cmp.(Jan 1986)	53781.2	52722.5	52945.8	54853.80	21/4	24844.31	23/1
WORLD							
MS Capital Int (1/1/70)§	665.3*	669.4	675.4	680.10	8/5	598.21	23/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1359.31	1371.16	1374.76	1380.43	18/5	1222.41	13/3
Euro Top-100 (26/6/90)	1227.04	1241.20	1242.37	1244.92	6/6	1114.54	10/3
JCapelDrgns (31/12/88)	(u)	338.99	341.04	347.26	5/6	282.07	23/1
Barings Emerg.(7/1/92)	147.85	148.37	150.40	169.07	2/1	117.16	10/3

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
■ CAC-40 (200 x Index)							
Jun	1940.0	1889.0	-55.0	1943.0	1887.0	23,797	53,511
Jul	1941.0	1891.5	+45.0	1941.0	1893.0	321	4,531
■ DAX							
Jun	2126.5	2107.0	-32.5	2131.0	2105.0	24,077	113,892
Sep	2147.5	2128.0	-34.0	2152.0	2127.0	7,133	16,013
■ OMX							
Jun	1260.0	1264.5	+2.00	1264.0	1254.0	3,215	15,867
Jul	1268.0	1271.0	-	1271.0	1268.0	110	654
■ SOFFEX							
Jun	2794.5	2789.0	-21.5	2796.0	2781.0	5,376	19,396
Jul	2792.0	2792.0	-18.0	2800.0	2787.0	630	2,807
■ S&P 500							
Jun	530.50	528.70	-2.95	531.50	528.70	33,938	127,561
Sep	536.15	533.15	-3.05	536.15	533.15	58,940	104,857
■ Nikkei 225							
Sep	15230.0	15140.0	-390.0	15280.0	15050.0	38,310	94,245
Dec	15300.0	15150.0	-	15300.0	15150.0	116	660

Open interest figures for previous day.

** Sat June 3: Taiwan Weighted Price (c) ; Korea Comp Ex 890.08. Base values of all indices are 100 except Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 26 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Jun 9 - 2107.16 -30.05.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♠ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

US INDICES

Dow Jones	Jun 9	Jun 8	Jun 7	1995 High	1995 Low	Since compilation High	Since compilation Low
Industrials	4423.99	4458.57	4462.03	4485.28 (6/6)	3832.08 (30/1)	4485.20 (6/6/95)	41.22 (2/7/32)
Home Bonds	101.41	101.93	102.16	102.26 (6/6)	93.63 (3/1)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	1644.36	1642.50	1653.91	1686.28 (28/4)	1473.19 (3/1)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	201.62	204.92	207.36	209.86 (5/6)	183.03 (3/1)	523.85 (25/5/95)	10.50 (8/4/32)

DJ Ind. Day's high 4468.87 (4482.12) Low 4384.59 (4431.59) (Theoretical♠)
Day's high 4458.57 (4468.94) Low 4407.04 (4452.69) (Actual♠)

Standard and Poors	Jun 9	Jun 8	Jun 7	1995 High	1995 Low	Since compilation High	Since compilation Low
Composite ‡	527.94	532.35	533.13	535.60 (5/6)	459.11 (3/1)	535.60 (5/6/95)	4.40 (1/6/32)
Industrials♥	626.77	633.48	632.76	634.20 (5/6)	546.28 (3/1)	634.29 (6/6/95)	3.62 (21/6/32)
Financial	50.31	51.10	51.73	52.57 (5/6)	41.41 (2/1)	52.57 (5/6/95)	8.64 (1/10/74)
NYSE Comp.	284.05	286.45	286.96	288.23 (8/6)	250.73 (3/1)	288.23 (6/6/95)	4.46 (25/4/42)
Amex Mkt. Val	488.59	488.62	488.57	492.18 (31/5)	433.12 (6/1)	492.18 (31/5/95)	29.31 (9/12/72)
NASDAQ Cmp	884.38	886.13	881.58	886.13 (8/6)	743.58 (3/1)	886.13 (6/6/95)	54.87 (31/10/72)

■ RATIOS

	Jun 2	May 26	May 19	Year ago
Dow Jones Ind. Div. Yield	2.54	2.53	2.54	2.69
	Jun 7	May 31	May 24	Year ago
S & P Ind. Div. yield	2.20	2.19	2.21	2.48
S & P Ind. P/E ratio	17.65	17.72	17.61	24.06

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Gen Motors	7,227,400	42⅞	-⅛
Rubbermaid	5,740,100	25⅝	-3¾
Kmart	3,599,700	14⅛	+¼
Philip Morris	3,514,600	70¼	-1¼
Merck	3,416,400	47½	-⅞
IBM	3,305,800	89⅞	-⅞
Gen Electric	3,168,600	56½	-1½
Micron	3,054,100	48¼	+⅝
Global Marine	2,741,900	5⅝	+¼
AT&T	2,306,400	50⅝	+⅛

■ TRADING ACTIVITY

● Volume (million)	Jun 9	Jun 8	Jun 7
New York SE	327.571	289.820	327.731
Amex	14.453	17.763	18.514
NASDAQ	(u)	392.091	395.232
NYSE			
Issues Traded	2,973	2,965	2,996
Rises	644	1,026	876
Falls	1,588	1,158	1,365
Unchanged	741	781	755
New Highs	67	110	124
New Lows	10	3	12

NORTH AMERICA

CANADA

TORONTO (Jun 9 / Can $)
4 pm close

[illegible]

AFRICA

SOUTH AFRICA (Jun 9 / Rand)

[illegible]

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are usually last traded prices. Highs/Lows are for 1995, except Toronto & Montreal (daily). ♦ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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■ TOKYO - MOST ACTIVE STOCKS: Friday, June 9, 1995.

	Stocks Traded	Closing Prices	Change on day
Fudo Const	17.8m	743	+18
Nippon Steel	8.4m	298	
Kawasaki Steel	8.0m	293	-10
Showa Line	7.1m	81	-50
NEC Corp	5.8m	981	-9
Mitsubishi Hvy	5.4m	564	-1
Toshiba Corp	5.2m	495	-10
NKK Corp	5.1m	204	-5
Sumitomo Bank	5.0m	1,690	-30
Toyota Motor	4.7m	1,830	-10

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Jun 9		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	15.7105	-0.1054	047 - 163	15.9301	15.7024	15.6874	1.8	15.6402	1.8	-	-	107.2
Belgium	(BFr)	46.0490	-0.2659	346 - 634	46.3970	45.9390	45.984	1.7	45.854	1.7	45.244	1.7	109.9
Denmark	(DKr)	8.7223	-0.0868	169 - 276	8.7737	8.7132	8.7259	-0.5	8.7177	0.2	8.6868	0.4	110.3
Finland	(FM)	6.8501	-0.0452	450 - 551	6.8900	6.8400	-	-	-	-	-	-	87.3
France	(FFr)	7.8525	-0.0612	488 - 561	7.9144	7.8425	7.8604	-1.2	7.871	-0.9	7.8386	0.2	108.7
Germany	(DM)	2.2342	-0.0208	334 - 349	2.2506	2.2299	2.2306	1.9	2.223	2.0	2.1836	2.3	112.3
Greece	(Dr)	360.397	-2.254	251 - 524	364.016	359.478	-	-	-	-	-	-	68.7
Ireland	(I£)	0.9780	-0.005	768 - 792	0.9831	0.9759	0.9776	0.5	0.9774	0.2	0.9777	0.0	97.2
Italy	(L)	2607.89	-10.03	588 - 989	2628.28	2605.61	2617.39	-4.4	2634.89	-4.1	2706.39	-3.8	67.6
Luxembourg	(LFr)	46.0490	-0.2659	346 - 634	46.3970	45.9390	45.984	1.7	45.854	1.7	45.244	1.7	109.9
Netherlands	(Fl)	2.4984	-0.0222	972 - 995	2.5217	2.4956	2.4943	2.0	2.4908	1.2	2.4382	2.4	109.8
Norway	(NKr)	9.9335	-0.0826	279 - 390	10.0371	9.9152	9.9248	1.1	9.9012	1.3	9.7739	1.6	99.3
Portugal	(Es)	234.678	-2.392	581 - 795	236.539	234.523	233.813	4.4	236.983	-3.9	-	-	95.9
Spain	(Pta)	193.753	-1.338	683 - 823	195.148	193.663	194.253	-3.1	195.328	-3.3	200.353	-3.4	81.2
Sweden	(SKr)	11.5037	-0.0035	939 - 134	11.5487	11.4562	11.506	-0.2	11.5105	-0.2	11.5291	-0.2	78.4
Switzerland	(SFr)	1.8398	-0.0208	385 - 407	1.8533	1.8378	1.8349	3.0	1.8246	3.3	1.7766	3.4	113.7
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	84.1
Ecu	-	1.2131	-0.0045	124 - 137	1.2161	1.2102	1.2132	0.0	1.2119	0.4	1.2047	0.7	-
SDR†	-	1.02126	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5986	+0.0104	982 - 989	1.5989	1.5923	-	-	-	-	-	-	-
Brazil	(R$)	1.4591	+0.0145	580 - 601	1.4611	1.4498	-	-	-	-	-	-	-
Canada	(C$)	2.2022	+0.019	014 - 029	2.2037	2.1890	2.2047	-1.4	2.2075	-1.0	2.1983	0.2	82.0
Mexico	(New Peso)	9.8471	+0.1235	439 - 502	9.8545	9.8900	-	-	-	-	-	-	-
USA	($)	1.5990	+0.0107	987 - 992	1.5992	1.5926	1.5988	0.3	1.5969	0.5	1.5823	1.0	88.3
Pacific/Middle East/Africa													
Australia	(A$)	2.2206	+0.026	195 - 217	2.2225	2.2182	2.2228	-1.2	2.2262	-1.0	2.2355	-0.7	77.7
Hong Kong	(HK$)	12.3863	+0.0823	535 - 690	12.3694	12.3184	12.3623	0.4	12.3529	0.4	12.286	0.6	-
India	(Rs)	50.2311	+0.3449	152 - 469	50.2530	50.0470	-	-	-	-	-	-	-
Israel	(Shk)	4.7639	+0.004	598 - 680	4.7919	4.7376	-	-	-	-	-	-	-
Japan	(Y)	134.712	-0.341	611 - 813	135.400	134.480	134.147	5.0	132.892	5.4	127.032	5.7	170.1
Malaysia	(M$)	3.9022	+0.0299	008 - 036	3.9038	3.8875	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3982	+0.0286	965 - 998	2.4004	2.3951	2.403	-2.4	2.4121	-2.3	2.4287	-1.3	97.9
Philippines	(Peso)	41.2130	+0.2745	866 - 393	41.3687	41.0794	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.9971	+0.04	959 - 983	5.9988	5.9735	-	-	-	-	-	-	-
Singapore	(S$)	2.2247	+0.0146	235 - 258	2.2260	2.2169	-	-	-	-	-	-	-
South Africa	(R)	5.8734	+0.0256	712 - 755	5.8868	5.8536	-	-	-	-	-	-	-
South Korea	(Won)	1223.84	+16.19	349 - 419	1224.27	1212.46	-	-	-	-	-	-	-
Taiwan	(T$)	41.0716	+0.2739	626 - 810	41.0855	40.9115	-	-	-	-	-	-	-
Thailand	(Bt)	39.4062	+0.169	920 - 203	39.4300	39.2890	-	-	-	-	-	-	-

† Rates for Jun 8. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 9		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan index
Europe													
Austria	(Sch)	9.8255	-0.1323	234 - 276	9.9120	9.8220	9.8135	1.5	9.7935	1.3	9.699	1.3	106.8
Belgium	(BFr)	28.7995	-0.3605	950 - 040	29.1350	28.7540	28.7645	1.5	28.7095	1.3	28.5895	0.7	109.2
Denmark	(DKr)	5.4550	-0.0787	525 - 575	5.4885	5.4508	5.4588	-0.8	5.467	-0.9	5.5025	-0.9	106.9
Finland	(FM)	4.2841	-0.0572	816 - 866	4.3165	4.2810	4.2823	0.5	4.2791	0.5	4.2786	0.1	88.0
France	(FFr)	4.9110	-0.0715	095 - 125	4.9598	4.9040	4.9175	-1.6	4.9299	-1.5	4.96	-1.0	107.7
Germany	(DM)	1.3973	-0.0225	970 - 975	1.4097	1.3959	1.3956	1.5	1.3923	1.4	1.3816	1.1	111.1
Greece	(Dr)	225.390	-2.93	340 - 440	228.180	225.110	227.39	-10.6	231.14	-10.2	246.89	-9.5	67.8
Ireland	(I£)	1.6349	+0.0191	331 - 366	1.6370	1.6225	1.6355	-0.4	1.6373	-0.6	1.6421	-0.4	-
Italy	(L)	1631.00	-17.25	000 - 200	1647.00	1629.75	1637.5	-4.8	1650.25	-4.7	1710.5	-4.9	67.1
Luxembourg	(LFr)	28.7995	-0.3605	950 - 040	29.1350	28.7540	28.7645	1.5	28.7095	1.3	28.5895	0.7	109.2
Netherlands	(Fl)	1.5625	-0.0245	620 - 630	1.5805	1.5620	1.5604	1.6	1.5564	1.5	1.5443	1.2	108.9
Norway	(NKr)	6.2125	-0.0837	100 - 150	6.2850	6.2090	6.2138	-0.2	6.2065	0.4	6.199	0.2	97.8
Portugal	(Es)	146.770	-2.49	720 - 820	148.300	146.690	147.22	-3.7	148.22	-4.0	154.02	-4.9	95.6
Spain	(Pta)	121.175	-1.655	150 - 200	122.350	121.020	121.515	-3.4	122.315	-3.8	126.65	-4.5	80.5
Sweden	(SKr)	7.1945	-0.0505	895 - 995	7.2430	7.1804	7.2102	-2.6	7.246	-2.9	7.432	-3.3	78.0
Switzerland	(SFr)	1.1505	-0.0208	500 - 510	1.1620	1.1500	1.1479	2.7	1.143	2.6	1.126	2.1	112.5
UK	(£)	1.5990	+0.0107	987 - 992	1.5992	1.5926	1.5996	0.3	1.5969	0.5	1.5823	1.0	83.9
Ecu	-	1.3181	+0.0136	176 - 186	1.3190	1.3119	1.3179	0.1	1.3178	0.1	1.3138	0.3	-
SDR†	-	0.64178	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	-0.0002	997 - 998	0.9998	0.9997	-	-	-	-	-	-	-
Brazil	(R$)	0.9125	+0.003	120 - 130	0.9130	0.9090	-	-	-	-	-	-	-
Canada	(C$)	1.3773	+0.0027	770 - 775	1.3776	1.3727	1.3788	-1.4	1.382	-1.4	1.3938	-1.2	80.9
Mexico	(New Peso)	6.2210	+0.036	200 - 220	6.2220	6.2200	6.2233	-0.4	6.2264	-0.4	6.2313	-0.2	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	90.1
Pacific/Middle East/Africa													
Australia	(A$)	1.3887	+0.0071	883 - 893	1.3928	1.3880	1.3903	-1.4	1.3942	-1.6	1.4154	-1.9	79.6
Hong Kong	(HK$)	7.7340	-	335 - 345	7.7346	7.7333	7.7322	0.3	7.7317	0.1	7.7475	-0.2	-
India	(Rs)	31.4150	+0.0065	100 - 200	31.4250	31.3850	31.495	-3.1	31.74	-4.1	-	-	-
Israel	(Shk)	2.9794	-0.0175	773 - 815	3.0020	2.9680	-	-	-	-	-	-	-
Japan	(Y)	84.2500	-0.78	000 - 000	84.8500	84.1900	83.915	4.8	83.25	4.7	80.545	4.4	170.4
Malaysia	(M$)	2.4405	+0.0025	400 - 410	2.4443	2.4383	2.4385	1.0	2.4361	0.7	2.4305	0.4	-
New Zealand	(NZ$)	1.4997	+0.0078	990 - 006	1.5039	1.4987	1.5031	-2.7	1.5099	-2.7	1.5292	-2.0	-
Philippines	(Peso)	25.7750	-	000 - 500	25.8500	25.7000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7507	+0.0001	505 - 508	3.7508	3.7505	3.7517	-0.3	3.7538	-0.3	3.7657	-0.4	-
Singapore	(S$)	1.3913	-0.0002	908 - 918	1.3920	1.3902	1.3861	4.5	1.3778	3.9	1.3513	2.9	-
South Africa	(R)	3.6733	-0.0085	725 - 740	3.6865	3.6720	3.6943	-6.9	3.7453	-7.8	4.0013	-8.9	-
South Korea	(Won)	765.400	+5.05	300 - 500	765.900	760.700	768.4	-4.7	771.9	-3.4	790.4	-3.3	-
Taiwan	(T$)	25.6868	+0.0003	850 - 885	25.6905	25.6845	25.7066	-0.9	25.7468	-0.9	-	-	-
Thailand	(Bt)	24.6450	-0.04	400 - 500	24.6750	24.6300	24.666	-1.0	24.6925	-0.8	24.78	-0.5	-

† SDR rate per $ for Jun 8. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jun 8. Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

June 9	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	4½	4⅝	4 11/16	4¾	5	7.40	4.00	-
week ago	4⅝	4⅝	4¾	5	5¼	7.40	4.00	-
France	7⅝	7 7/16	7⅛	6⅞	6¾	5.00	-	8.00
week ago	7⅝	7 7/16	7⅛	7 1/16	6¾	5.00	-	8.00
Germany	4 7/16	4⅜	4⅜	4⅜	4 7/16	6.00	4.00	4.51
week ago	4½	4⅜	4½	4½	4⅝	6.00	4.00	4.51
Ireland	6⅝	6 9/16	6 21/32	6 27/32	7 1/16	-	-	6.25
week ago	6⅝	6 9/16	6 23/32	6 27/32	7⅛	-	-	6.25
Italy	10⅜	10⅝	10 25/32	10⅞	11⅛	-	7.50	10.40
week ago	10¼	10⅝	10 23/32	10¾	11	-	7.50	10.40
Netherlands	4⅛	4 3/16	4 3/16	4½	4⅜	-	5.25	-
week ago	4⅜	4 3/16	4⅜	4 7/16	4⅝	-	5.25	-
Switzerland	2⅞	3⅜	3 5/16	3¼	3⅛	6.625	3.00	-
week ago	2⅞	3⅜	3 5/16	3⅜	3½	6.625	3.00	-
US	6	6	6	5 27/32	5 23/32	-	5.25	-
week ago	6	6	6	5 27/32	5 23/32	-	5.25	-
Japan	1¼	1¼	1⅛	1 1/16	1 1/16	-	1.00	-
week ago	1⅜	1¼	1⅛	1 1/16	1⅛	-	1.00	-
■ $ LIBOR FT London								
Interbank Fixing	-	6 1/16	6 1/16	6	6	-	-	-
week ago	-	6 1/16	6	5⅞	5⅞	-	-	-
US Dollar CDs	-	5.84	5.85	5.78	5.80	-	-	-
week ago	-	5.84	5.63	5.46	5.42	-	-	-
ECU Linked Ds	-	6⅛	6⅛	6⅛	6⅛	-	-	-
week ago	-	6⅛	6 1/16	6¼	6⅜	-	-	-
SDR Linked Ds	-	3 13/16	3 15/16	3⅞	3⅞	-	-	-
week ago	-	3 15/16	4 1/16	4 1/16	4⅛	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jun 9	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	4 11/16 - 4 9/16	4 11/16 - 4 9/16	4⅝ - 4½	4¾ - 4⅝	4 13/16 - 4 11/16	5 1/16 - 4 15/16
Danish Krone	6½ - 6	6⅝ - 6⅜	6 11/16 - 6½	6 11/16 - 6½	6 13/16 - 6 9/16	6¾ - 6⅝
D-Mark	4⅝ - 4½	4⅝ - 4½	4½ - 4⅜	4½ - 4⅜	4 7/16 - 4 5/16	4 9/16 - 4 7/16
Dutch Guilder	4 3/16 - 4 1/16	4 3/16 - 4 1/16	4¼ - 4⅛	4 5/16 - 4 3/16	4 5/16 - 4¼	4 7/16 - 4⅜
French Franc	7½ - 7⅜	7½ - 7⅜	7½ - 7⅜	7¼ - 7⅛	6⅞ - 6¾	6⅝ - 6½
Portuguese Esc.	9⅛ - 8 13/16	9⅛ - 8⅞	9⅝ - 9⅜	10 1/16 - 9 13/16	10 5/16 - 10 1/16	11 - 10¾
Spanish Peseta	9 13/16 - 9 7/16	9 9/16 - 9 7/16	9½ - 9⅜	9 11/16 - 9 9/16	10¼ - 10⅛	10½ - 10⅜
Sterling	5¾ - 5⅝	6 - 5⅞	6⅜ - 6 5/16	6⅝ - 6 9/16	6 13/16 - 6¾	7 7/32 - 7 3/32
Swiss Franc	3 5/16 - 3 3/16	3¼ - 3⅛	3¼ - 3⅛	3 5/16 - 3 3/16	3 5/16 - 3 3/16	3 7/16 - 3 5/16
Can. Dollar	7 5/16 - 7⅛	7⅜ - 7 3/16	7 5/16 - 7 3/16	7⅛ - 7	7 - 6⅞	7 - 6⅞
US Dollar	6 1/16 - 5 15/16	6 1/16 - 5 15/16	6 1/16 - 5 15/16	6 1/16 - 5 15/16	6 - 5⅞	6 - 5⅞
Italian Lira	10⅛ - 10	10⅝ - 10½	10¾ - 10⅝	10¾ - 10⅝	10 15/16 - 10 13/16	11¼ - 11⅛
Yen	1¼ - 1 3/16	1¼ - 1 3/16	1 7/32 - 1 3/32	1 3/16 - 1⅛	1⅛ - 1 1/16	1 7/32 - 1 3/32
Asian $Sing	¼ - ⅛	¼ - ⅛	½ - ⅜	1 - ⅞	1½ - 1⅜	2¼ - 2⅛

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	93.95	93.93	-0.02	94.00	93.91	79,588	312,272
Sep	94.20	94.11	-0.12	94.27	94.07	129,234	374,334
Dec	94.20	94.02	-0.21	94.27	94.01	226,189	333,228

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.41	94.40	-0.02	94.47	94.39	2,402	7,130
Sep	94.59	94.55	-0.09	94.66	94.50	603	11,128
Dec	94.68	94.50	-0.19	94.70	94.49	87	11,089

All Open interest figs. are for previous day

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jun 9		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.94	17.05	4.851	2.124	5663	5.425	21.57	509.7	420.8	24.97	3.998	2.172	4.782	3.472	292.5	2.634
Denmark	(DKr)	52.80	10	9.004	2.561	1.121	2990	2.864	11.39	269.1	222.2	13.19	2.110	1.147	2.525	1.833	154.4	1.391
France	(FFr)	58.64	11.11	10	2.845	1.245	3321	3.181	12.65	298.9	246.8	14.64	2.343	1.273	2.804	2.036	171.5	1.545
Germany	(DM)	20.61	3.904	3.515	1	0.438	1167	1.118	4.447	105.1	86.75	5.148	0.824	0.448	0.986	0.716	60.30	0.543
Ireland	(I£)	47.09	8.918	8.030	2.284	1	2667	2.554	10.16	240.0	198.2	11.76	1.881	1.022	2.252	1.635	137.7	1.240
Italy	(L)	1.766	0.334	0.301	0.086	0.038	100.	0.096	0.381	8.999	7.431	0.441	0.071	0.038	0.084	0.061	5.165	0.047
Netherlands	(Fl)	18.43	3.492	3.144	0.894	0.392	1044	1	3.977	93.96	77.58	4.604	0.737	0.400	0.882	0.640	53.92	0.486
Norway	(NKr)	46.36	8.780	7.905	2.249	0.984	2625	2.515	10	236.3	195.1	11.58	1.852	1.007	2.217	1.610	135.6	1.221
Portugal	(Es)	19.62	3.716	3.346	0.952	0.417	1111	1.064	4.233	100.	82.57	4.900	0.784	0.426	0.938	0.681	57.39	0.517
Spain	(Pta)	23.76	4.501	4.052	1.153	0.505	1345	1.289	5.126	121.1	100.	5.934	0.949	0.516	1.136	0.825	69.50	0.626
Sweden	(SKr)	40.04	7.584	6.829	1.943	0.850	2268	2.172	8.638	204.1	168.5	10	1.600	0.870	1.915	1.390	117.1	1.055
Switzerland	(SFr)	25.03	4.740	4.268	1.214	0.532	1417	1.358	5.399	127.6	105.3	6.250	1	0.543	1.197	0.869	73.21	0.659
UK	(£)	46.05	8.722	7.853	2.234	0.978	2608	2.498	9.934	234.7	193.8	11.50	1.840	1	2.202	1.599	134.7	1.213
Canada	(C$)	20.91	3.961	3.566	1.015	0.444	1184	1.134	4.511	106.6	88.01	5.223	0.836	0.454	1	0.726	61.17	0.551
US	($)	28.80	5.455	4.911	1.397	0.612	1631	1.562	6.213	146.8	121.2	7.192	1.151	0.625	1.377	1	84.24	0.759
Japan	(Y)	34.19	6.475	5.830	1.659	0.726	1936	1.854	7.375	174.2	143.9	8.537	1.366	0.742	1.635	1.187	100.	0.901
Ecu		37.96	7.190	6.474	1.842	0.806	2150	2.059	8.190	193.5	159.8	9.481	1.517	0.824	1.815	1.318	111.0	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Jun	0.7098	0.7125	+0.0021	0.7170	0.7098	31,255	59,128
Sep	0.7135	0.7153	+0.0022	0.7202	0.7122	4,211	14,012
Dec	-	0.7180	+0.0024	0.7192	0.71832	50	1,601

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Jun	0.8613	0.8631	+0.0018	0.8703	0.8611	18,553	22,408
Sep	0.8708	0.8689	+0.0019	0.8760	0.8675	2,117	5,714
Dec	0.8760	0.8742	+0.0021	0.8760	0.8740	15	739

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Jun	1.1818	1.1860	+0.0040	1.1900	1.1795	14,572	54,698
Sep	1.1940	1.2008	+0.0043	1.2050	1.1940	2,709	11,278
Dec	1.2100	1.2154	+0.0045	1.2169	1.2100	88	1,420

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Jun	1.5960	1.5948	-0.0026	1.5994	1.5926	7,232	23,038
Sep	1.5920	1.5926	-0.0026	1.5960	1.5906	1,354	5,308
Dec	-	1.5882	-0.0026	1.5910	1.5870	1	176

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	Calls Jun	Calls Jul	Calls Aug	Puts Jun	Puts Jul	Puts Aug
1.525	6.85	-	-	-	0.07	0.40
1.550	4.37	-	-	-	-	-
1.575	2.12	2.85	3.47	0.17	0.97	1.66
1.600	0.58	1.52	2.19	1.09	2.08	2.77
1.625	0.05	0.67	1.26	2.97	3.66	4.32
1.650	-	0.23	-	5.38	-	-

Previous day's vol., Calls N/A Puts N/A. Prev. day's open int., Calls N/A Puts N/A

■ Pound in New York

Jun 9	Close	Prev. close
£ spot	1.5943	1.5960
1 mth	1.5939	1.5956
3 mth	1.5923	1.5939
1 yr	1.5776	1.5800

FT GUIDE to WORLD CURRENCIES
The FT Guide to World Currencies table can be found on the Emerging Markets page in today's edition.

FT GOLD MINES INDEX

	Jun 9	% chg since 30/12/94	Jun 8	Mkt Cap $bn	% of Gold Mines	Gross div yield %	52 week High	52 week Low
Gold Mines Index (33)	1895.01	-4.1	1905.92	47.05	100.00	2.16	2337.90	1637.91
■ Regional Indices								
Africa (16)	2467.17	-22.7	2485.09	13.26	28.18	5.21	3711.87	2428.19
Australasia (6)	2133.22	-73.1	2182.81	5.40	11.49	1.84	2951.49	1798.20
North America (11)	1703.89	+10.3	1706.82	28.39	60.34	0.80	1911.21	1348.18

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LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1995 High	1995 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	P.P.	127.7	733	689	Brit Aero Cap Uts	696	-2	-	-	-	-
-	F.P.	25.2	103	98	Finsbury Worldwide	101		-	-	-	-
122	F.P.	24.9	127	122	Gradus Group	126		Lv4.88	2.1	4.8	12.5
80	F.P.	14.1	98	80	Gus Carter	89	-2	v-	-	-	19.6
-	F.P.	63.2	113	111	International Energy	112		v3.3	2.3	3.7	14.7
3	F.P.	2.23	3½	3½	Langdons Foods	3½		Hv0.1	2.8	3.8	13.3
100	F.P.	20.4	98	93	NatWest Irish SC	95		-	-	-	-
-	F.P.	1.33	33	28	Do. Warrants	31		-	-	-	-
-	F.P.	1,271.9	141	137	NYNEX CableCms	137½		-	-	-	-
-	F.P.	13.0	650	650	Oryx India	650		-	-	-	-
-	F.P.	1.00	250	250	Do Warrants	250		-	-	-	-
125	F.P.	16.8	141	128	Silk Industries	140		Lv5.6	2.1	5.0	11.7

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1995 High	1995 Low	Stock	Closing price p	+or-
34	Nil	19/6	35pm	3pm	Daniels (S)	20pm	-5
205	Nil	19/7	28pm	27pm	David Brown	27pm	
10	Nil	28/6	3pm	2pm	¶Laser-Scan	2pm	-1
4	Nil	12/6	2½pm	1pm	Prime People	1pm	
475	Nil	9/8	44½pm	27pm	Scott & N ULS 95/00	39pm	

UK INTEREST RATES

LONDON MONEY RATES

Jun 9	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	5¾ - 4	6¼ - 6	6 7/16 - 6 5/16	6⅝ - 6½	6⅞ - 6 13/16	7¼ - 6 15/16
Sterling CDs	-	-	6⅜ - 6 5/16	6 17/32 - 6 15/32	6 13/16 - 6⅝	6⅞ - 6 13/16
Treasury Bills	-	-	6⅛ - 6 1/16	6 5/16 - 6¼	-	-
Bank Bills	-	-	6¼ - 6 3/16	6 15/32 - 6 13/32	6 17/32 - 6 15/32	-
Local authority deps.	6 3/16 - 5 3/16	6 1/16 - 5 15/16	6 5/16 - 6 3/16	6 9/16 - 6 7/16	6¾ - 6⅝	7⅛ - 7
Discount Market deps	7¼ - 6⅝	6 5/16 - 6 3/16	-	-	-	-

UK clearing bank base lending rate 6¾ per cent from February 2, 1995

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	3	5¾	5¾	6	6¼

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Ave. tender rate of discount 6.2735pc. ECGD fixed rate Stg. Export Finance. Make up day May 31, 1995. Agreed rate for period June 26, 1995 to July 25, 1995, Schemes II & III 8.03pc. Reference rate for period Apr 29, 1995 to May 31, 1995, Schemes IV & V 6.788pc. Finance House Base Rate 7pc from June 1, 1995

BANK OF ENGLAND TREASURY BILL TENDER

	Jun 9	Jun 2		Jun 9	Jun 2
Bills on offer	£1100m	£1100m	Top accepted rate	6.2973%	6.2772%
Total of applications	£5554m	£2681m	Ave. rate of discount	6.2735%	6.1601%
Total allocated	£1100m	£1100m	Average yield	6.3732%	6.2768%
Min. accepted bid	£98.430	£98.435	Offer at next tender	£1300m	£1300m
Allotment at min. level	97%	27%	Min. accept. bid 182 days	-	-

BANK RETURN

BANKING DEPARTMENT	Wednesday 7 June, 1995	Increase or decrease for week
Liabilities	£	£
Capital	14,553,000	
Public deposits	1,205,555,504	+842,881,724
Bankers deposits	1,684,330,151	+99,589,579
Reserve and other accounts	2,861,795,154	-124,240,886
	5,766,233,809	+918,230,417
Assets		
Government securities	1,735,843,456	-359,205,000
Advance and other accounts	2,229,306,569	+680,291,208
Premise, equipment and other secs	1,791,816,779	+591,613,481
Notes	9,285,436	+5,496,006
Coin	181,539	+34,722
	5,766,233,809	+918,230,417
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	18,910,714,564	-345,496,006
Notes in Banking Department	9,285,436	+5,496,006
	18,920,000,000	-340,000,000
Assets		
Other Government securities	16,679,264,193	-777,472,768
Other Securities	2,240,735,807	+437,472,768
	18,920,000,000	-340,000,000

BASE LENDING RATES

	%		%		%
Adam & Company	6.75	Duncan Lawrie	6.75	*Roxburghe Guarantee Corporation Ltd is no longer authorised as a banking institution.	10
Allied Trust Bank	6.75	Exeter Bank Limited	7.75	Royal Bk of Scotland	6.75
AIB Bank	6.75	Financial & Gen Bank	7.50	Singer & Friedlander	6.75
●Henry Ansbacher	6.75	●Robert Fleming & Co	6.75	●Smith & Williamson Secs	6.75
Bank of Baroda	6.75	Girobank	6.75	TSB	6.75
Banco Bilbao Vizcaya	6.75	●Guinness Mahon	6.75	Unity Trust Bank Plc	6.75
Bank of Cyprus	6.75	Habib Bank AG Zurich	6.75	Western Trust	6.75
Bank of Ireland	6.75	●Hambros Bank	6.75	Whiteaway Laidlaw	6.75
Bank of India	6.75	Heritable & Gen Inv Bk	6.75	Yorkshire Bank	6.75
Bank of Scotland	6.75	●Hill Samuel	6.75		
Barclays Bank	6.75	C. Hoare & Co	6.75		
Brit Bk of Mid East	6.75	Hongkong & Shanghai	6.75		
●Brown Shipley & Co Ltd	6.75	Julian Hodge Bank	6.75		
Citibank NA	6.75	●Leopold Joseph & Sons	6.75	● Members of London Investment Banking Association	
Clydesdale Bank	6.75	Lloyds Bank	6.75	* In administration	
The Co-operative Bank	6.75	Meghraj Bank Ltd	6.75		
Coutts & Co	6.75	Midland Bank	6.75		
Credit Lyonnais	6.75	*Mount Banking	6.75		
Cyprus Popular Bank	6.75	NatWestminster	6.75		
		●Rea Brothers	6.75		

UK GILTS PRICES

Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
Shorts" (Lives up to Five Years)						
Exch 10¼pc 1995	100⅞	-.1	2,500	Ja21 Jy21	15.12	1254
Treas 12¾pc 1995‡‡	102⅝	-.1	840	My15 Nv15	10.4	1298
14pc 1996	104⅜	-.1	770	Jy22 Ja22	16.12	1305
15¼pc 1996‡‡	107⅞	-.2	1,159	Nv3 My3	27.3	1309
Exch 13¼pc 1996‡‡	105⅞	-.1	800	Nv15 My15	10.4	1268
Conversion 10pc 1996	103⅞	-.4	3,409	My15 Nv15	10.4	1240
Treas 13¼pc 1997‡‡	109⅛	-.5	1,280	Jy22 Ja22	16.12	1302
[illegible]						
Conv 9½pc 2005	108⅛	-2.5	4,842	Oc18 Ap18	13.3	1247
Treas 12½pc 2003-5	125⅞	-2.7	2,200	My21 Nv21	18.4	1295
Treas 8½pc 2005‡‡	102⅞	-2.6	6,400	Ja7 De7	1.5	4946
7¾pc 2006‡‡	97⅛	-2.8	3,900	Mr8 Se8	30.1	2300
8pc 2002-6‡‡	99⅛	-1.8	2,000	Ap5 Oc5	28.2	1334
Treas 11¾pc 2003-7	119⅞	-1.9	3,150	Jy22 Ja22	16.12	1293
Treas 8½pc 2007‡‡	102⅞xd	-2.5	7,397	Ja16 Jy16	9.6	1339
[illegible]						
7pc 2001‡‡	95⅛	-2.0	7,500	[illegible]	30.3	3031
9¾pc 2002	109⅞	-1.9	6,527	Fe27 Au27	23.1	1349
8pc 2003‡‡	99⅞	-2.1	8,250	De10 Ja10	4.5	2010
10pc 2003	111¼	-2.1	2,509	Mr8 Se8	30.1	1281
Treas 11½pc 2001-4	115⅞	-1.7	1,620	Se19 Mr19	10.2	1280
Funding 3½pc 1999-4	72⅛xd	-3.4	543	Ja14 Jy14	7.6	1274
Conversion 9½pc 2004	108⅞	-2.4	3,412	Ap25 Oc25	20.3	1246
Treas 6¾pc 2004‡‡	90⅞	-2.5	6,500	My26 Nv26	19.4	3541
Consols 4pc	49⅛	-2.2	359	Fe1 Au1	28.12	1239
War Loan 3½pc‡‡	43⅛	-3.5	1,909	Ja1 De1	23.4	1352
Conv 3½pc '61 Aft	60⅛	-.9	116	Ap1 Oc1	23.2	1243
Treas 3pc '66 Aft	36¼	-2.4	56	Ap5 Oc5	28.2	1324
Consols 2½pc	30⅛xd	-3.9	276	5JaApJyOc	1.6	1238
Treas. 2½pc	30⅞	-3.0	475	Ap1 Oc1	23.2	1315

Index-Linked (b)	Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
2pc '96	(67.9)	210	-.5	1,200	Mr16 Se16	7.2	1313
4⅝pc '98‡‡	(135.6)	111	-.9	800	Ap27 Oc27	21.3	1793
2½pc '01	(78.3)	174⅞	-1.0	1,600	Mr24 Se24	14.2	1316
2½pc '03	(78.8)	170⅞	-1.0	1,600	My20 Nv20	13.4	1317
4⅜pc '04‡‡	(135.6)	113⅞	-1.3	1,000	Ap21 Oc21	15.3	1255
2pc '06	(69.5)	178⅞	-1.2	1,750	Ja19 Jy19	13.12	1314
2½pc '09	(78.8)	162	-1.4	1,900	My20 Nv20	13.4	1318
2½pc '11	(74.6)	167⅞	-1.6	2,200	Fe23 Au23	17.1	1319
[illegible]							

(b) Figures in parentheses show RPI base for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for September 1994: 145.0 and for April 1995: 149.0.

Other Fixed Interest

	Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
[illegible]							
Leeds 13½pc 2006		133½	—	40	Ap1 Se9	3'93	3146
Liverpool 3½pc Irred.		40	—	5	1JaApJlOc	6'93	-
LCC 3pc '20 Aft		34½	—	26	1JaJeSeDa	6'93	-
Manchester 11½pc 2007		117	—	6	Ap25 Oc25	3'93	3275
Met. Wtr. 3pc 'B'		72	—	25	Mr1 Se1	8'93	3361
N'wide Anglia 3⅝pc 2021		143½	—	80	Ja30 Jy30	1'93	3465
4⅛pc IL 2024		138½	—	50	-	7'93	-
Utd Mex States 16½pc 2008		117½	—	50	Mr1 Se1	8'93	-

●'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Weekly percentage changes are calculated on a Friday to Friday basis.

STOCK INDICES

	Jun 9	Jun 8	Jun 7	Jun 6	Jun 5	1995 High	1995 Low	Since comp. High	Since comp. Low
FT-SE 100	3337.7	3360.9	3370.8	3380.0	3376.6	3380.6	2954.2	3520.3	986.9
FT-SE Mid 250	3678.9	3698.1	3695.8	3700.9	3690.1	3700.9	3300.9	4152.8	1379.4
FT-SE Mid 250 ex ITs	3688.8	3707.5	3704.7	3709.5	3697.7	3709.5	3306.4	4160.7	1378.3
FT-SE-A 350	1660.2	1670.7	1674.8	1679.7	1678.3	1679.7	1482.4	1779.3	664.5
FT-SE SmallCap	1860.39	1864.01	1866.58	1868.07	1867.32	1868.07	1678.80	2084.98	1363.79
FT-SE SmallCap ex ITs	1839.06	1841.16	1842.79	1845.02	1844.73	1845.02	1658.20	2060.72	1363.79
FT-SE-A All-Share	1641.32	1658.48	1654.84	1658.74	1656.47	1658.74	1463.20	1764.11	61.92
FT-SE-A Fledgling	1015.61	1016.29	1014.62	1013.86	1013.24	1016.29	949.00	1016.29	949.00
FT-SE Eurotrack 100	1359.31	1371.16	1374.78	1377.53	1375.78	1380.43	1222.41	1540.19	900.45
FT-SE Eurotrack 200	1452.26	1463.69	1462.94	1465.48	1461.39	1465.48	1314.73	1607.10	938.62
FT Ordinary	2512.4	2546.9	2543.5	2549.5	2553.7	2553.7	2238.3	2713.6	49.4
FT Govt Securities	93.45	94.38	95.00	95.20	95.51	95.51	90.22	127.40	49.18
FT Fixed Interest	113.34	114.13	114.66	114.84	114.60	114.86	108.77	133.87	50.53
FT Gold Mines	1895.01	1906.92	1893.25	1871.70	1861.67	2337.9	1637.91	2367.40	922.16

THE HEDGE FUND
SICAV
Luxembourg, 11, rue Aldringen
R.C. Luxembourg N° B 38653

Notice of Extraordinary General Meeting

As the Extraordinary General Meeting of 12 May 1995 did not reach the quorum of 50%, the shareholders are hereby invited to attend the second Extraordinary General Meeting which will be held at the registered office of the Company on 28 June 1995 at 11.00 a.m. with the following agenda:

Agenda

1. Decision to put the company into liquidation.
2. Appointment of Fin-Contrôle S.A., 11, rue Aldringen, L-1118 Luxembourg as liquidator.
3. Attribution to the liquidator of the largest possible powers of administration.

The shareholders are advised that no quorum is required for the items of the agenda and that the decisions will be taken at the majority of 2/3 of the shares present or represented at the Meeting. Each share is entitled to one vote. A shareholder may act at any Meeting by proxy.

By order of the Board of Directors

THE HEDGE FUND ($) II
SICAV
Luxembourg, 11, rue Aldringen
R.C. Luxembourg N° B 40 693

Notice of Extraordinary General Meeting

As the Extraordinary General Meeting of 12 May 1995 did not reach the quorum of 50%, the shareholders are hereby invited to attend the second Extraordinary General Meeting which will be held at the registered office of the Company on 28 June 1995 at 11.30 a.m. with the following agenda:

Agenda

1. Decision to put the company into liquidation.
2. Appointment of Fin-Contrôle S.A., 11, rue Aldringen, L-1118 Luxembourg as liquidator.
3. Attribution to the liquidator of the largest possible powers of administration.

The shareholders are advised that no quorum is required for the items of the agenda and that the decisions will be taken at the majority of 2/3 of the shares present or represented at the Meeting. Each share is entitled to one vote. A shareholder may act at any Meeting by proxy.

By order of the Board of Directors

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Fidelity Money Funds
Pembroke Hall, Pembroke, Bermuda
UK: Prof Advisers 0800 414181 Jersey: 01534 71696
Private Clients 0800 414161 00 352 250404230
From O'seas (44) 1732 777377 Hong Kong (852) 848 1000

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

Schroder Investment Mngmt (Guernsey) Ltd
PO Box 255, St Peter Port, Guernsey 01481 710851

[illegible]

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Apollo Investment Management Ltd

Arab Bank Fund Managers (Guernsey) Ltd

Bachmann Global Investment Fund Ltd

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

GT Asset Management - Contd.

[illegible]

IRELAND (REGULATED)(**)

[illegible]

Dynamic Pacific Portfolio Fund Plc

Egerton Capital European Fund Plc

Emerging Dynamic Fund Plc

F.I.T. Investment Trust Ltd (a)

Framlington Investment Mgmt (Ireland) Ltd

Frank Russell Investments (Ireland) Ltd (d)

GAM Fund Management (Ireland) Ltd

GT Asset Management (Ireland) Ltd

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

AXA Equity & Law Intl Fund Mgs

City Financial Admin (IoM) Ltd

Duncan Lawrie Inv. Mgt. Ltd

IBI Managers (IoM) Ltd

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

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OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

MANAGED FUNDS NOTES

LONDON SHARE SERVICE

BANKS, MERCHANT

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Barings 8pc Cm 2nd Prf		90½	—	8%	—	Jan Dec	14.11	1757
9¼pc Non-Cum Prf		[illegible]	—	9¼%	—	Jan Jul	14.11	1421
Cater Allen	‡†	523?	-2	28.3	1.6	Jan Jul	12.12	2081
Close Bros	‡†	278	-4	7.9	2.9	Apr Oct	13.3	2168
Gerrard & Nat	‡†□	490	-2	24.0	1.3	Jul Dec	7.11	2988?
Hambros	qv□	187	-13.0	7.5	1.3	Aug Dec	28.11	2812
7½pc Cv Pf		97	-5.8	7½%	—	Oct Apr	20.2	[illegible]
Joseph (L)	‡†	353	—	17.85	1.9	Sep Dec	5.12	3050
King & Shaxson	‡	120	1.7	9.0	1.1	Jan Jul	19.12	3088
Kleinwort Benson	‡v□	688	1.2	21.5	2.6	May Oct	27.2	3102
Rea Bros	‡v	51	—	1.0	2.7	May Oct	10.4	3785
Schroders	‡hv□	1103	-2.8	13.67	5.1	May Oct	27.3	3939
NV	hv	895	-4.3	13.67	5.1	May Oct	27.3	3941
Singer & Fried	‡v□	95	—	3.5	2.7	Nov Jun	18.4	4028
Union	‡v□	93	-5.1	3.0	—	Apr Oct	13.3	[illegible]
Warburg (SG)	‡qv□	753xd	-2.0	22.0	0.2	Sep Dec	22.5	4425
Wintrust	‡qv	245	8.9	11.35	φ	Mar Oct	20.2	4524

BANKS, RETAIL

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
ABN Amro Fl	□	[illegible]	-.1	[illegible]	φ	Sep May	9'93	—
ANZ A$	†	221	3.8	Q29c	2.4	Jan	12'93	—
Abbey National	v□	478	-1.7	17.75	2.8	May Oct	13.3	5411
Allied Irish I£	‡v□	300	-1.0	[illegible]	3.1	Oct Apr	20.2	1354
Anglo Irish I£	□	55xd	3.8	[illegible]	1.8	Jan Jul	22.5	1355
Asahi Y	□	748	-7.5	Q14%	1.3	Jan Dec	12'92	3049
Banco Bil Viz Pta	□	[illegible]	-2.2	[illegible]	2.7	JyOcJaAp	7'93	—
Banco Sant Pta		[illegible]	—	[illegible]	1.1	JyOcJaAp	2.5	—
Bk Ireland I£	v□	353xd	-.3	[illegible]	φ	Jan Jul	22.5	1360
Bank Scotland	‡v□	222xd	-1.6	5.82	3.9	Jul Dec	8.5	1742
9¼pc Pf		112¼	-3.4	9¼%	—	May Nov	24.4	1482
9¾pc Pf		119½	-3.2	9¾%	—	May Nov	24.4	1686
Barclays	‡v□	675	-2.9	21.0	4.4	Oct Jan	13.3	1754

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

BUILDING MATS. & MERCHANTS - Cont.

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

INVESTMENT COMPANIES - Cont.

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL EXPLORATION & PRODUCTION - Cont.

OIL, INTEGRATED

OTHER FINANCIAL

OTHER SERVICES & BUSINESSES

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SPIRITS, WINES & CIDERS

SUPPORT SERVICES

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

TRANSPORT - Cont.

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind		£32½	—	Q450c	2.4	Oct Apr	3'93	–
Barlow	♣	581½	—	Q58c	2.8	Jan Jul	12.12	–
Gold Flds Prop R		144	—	Q80c	2.1	Feb Sep	1'94	–
NK Props		90	—	Q87.1c	–	Feb Sep	10'93	–
SASOL	♥	604	—	Q78c	–	Oct	8'93	–
SA Brews		£17¼xd	—	Q200c	♦	Jun Dec	30.5	–
Tiger Oats		676	—	Q85c	2.8	Jan Aug	12.12	–
Tongaat-Hulett	†h	725xd	—	Q80c	2.4	Jan Jun	15.5	–

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; unless "v" is shown in the Notes field, indicating that the cover is calculated on a "net" basis. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- ¶ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♦ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v P/e ratio & net cover calculated under new ACT guidelines. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/ or rights issue. H Dividend based on prospectus or other official estimates for 1995. K Dividend based on prospectus or other official estimates for 1994. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1995-96. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xk ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1275 a year for each security shown, subject to the Editor's discretion

FT Share Service

The following changes have been made to the FT Share Information Service: **Additions:** Precoat Int'l (Eng), Dumyat Annual Div & Monthly Div & Schroder Inc Gwth & Warrants (Inv Trusts). **Deletions:** Wills Group (Distrbs).

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NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm close June 9

1995 High	1995 Low	Stock	Div	Yld. %	P/ E	Sls 100s	High	Low	Close Quote	Chg'ge Prev. Close
15½	12⅛	AAR	0.48	3.2	26	114	15⅝	15	15⅛	
24	17	ALPharmA	0.18	1.0	144	24	18¾	18¾	18¾	
43⅜	35	AMP	0.92	2.2	22	2541	42	41½	41⅞	
70	53⅜	AMR			23	13986	u71⅛	68⅞	71⅛	+1⅞
47⅞	41⅞	ASA	1.71	3.9	28	1589	44⅞	43¾	43¾	-⅜
40⅞	30¾	AbbtL	0.84	2.1	20	5578	39⅝	38⅝	39¼	-½
17¼	12	AbitibiPr	0.40	2.5	121	1442	16⅛	15½	15¾	-⅝
24⅜	21	ABM Ind	0.60	2.7	13	2	22⅜	22⅜	22⅜	-⅛
16⅝	13½	Acptncein			8	70	14⅝	14⅜	14⅝	+⅛
27½	21⅞	ACE Ltd	0.56	2.1	11	1729	27	26⅞	27	+⅛
9¾	8⅛	ACM Gvt In	0.90	9.5	8	141	9½	9⅜	9½	
7½	6½	ACM GvOpp	0.66	8.9		131	u7½	7¼	7⅜	
7½	5¾	ACM Gvt Sp	0.75	10.9		603	6⅞	6¾	6⅞	
8⅝	7¼	ACM Gvt Se	0.90	10.9		721	8½	8¼	8¼	-⅛
9½	7⅝	ACM Man	1.08	11.7		224	9⅜	9¼	9¼	
26⅛	10¼	AcmeCl	0.48	2.1	11	152	23	22½	23	
28¾	12⅜	Acme Elect			66	321	27½	27	27¼	-½
34½	30	Acordia	0.72	2.4	14	6	30⅝	30½	30⅝	+⅛
11⅝	6⅝	Actava	0.36	3.2	9	522	u11¾	11⅜	11⅜	-⅛
16¾	10⅛	Acuson			23	82	11⅜	11⅛	11¼	
17⅝	15⅝	Adams Expr	0.48	2.8	0	303	17¼	17	17⅛	-⅛
37½	25	AdvMic			9	14249	34¾	34	34⅜	
6⅞	5	Advest Grp	0.16	2.2	38	1190	u7¼	6⅞	7¼	+⅜
21¾	16½	Advo Inc	0.10	0.5	17	94	21⅜	21⅛	21⅜	
34⅜	24.81	Aegon	1.09	3.0	16	323	u34⅝	34	34⅛	+½
4⅝	3⅜	Aerflx			6	487	u4⅝	4¼	4⅜	+⅛
62	46¾	AetnaL	2.76	4.6	11	3604	61⅝	60⅛	60½	-1¼
44¾	31⅞	Aflac	0.52	1.2	14	745	44⅝	42⅞	42⅞	-1⅝
23¾	16	Ahmans	0.88	4.0	12	1796	22½	22⅛	22¼	-⅜
1⅜	[illegible]	Aileen Inc			0	12	½	½	½	[illegible]
54¼	43⅞	AirPrC	1.04	2.0	18	872	52¾	52	52⅝	
24¼	18⅜	Airbrn Frt	0.30	1.6	12	103	19⅜	18⅞	19¼	
27	18⅝	Airgas Inc			26	310	25½	25¼	25⅜	-⅛
15	13⅜	Airlease	2.00	13.0	11	90	u15⅝	14⅞	15⅜	+½
30	24	AirTch			118	15137	27	25⅞	26⅛	-⅞
17¼	13½	Alaska Air	0.20	1.2	17	566	16⅜	16⅛	16⅜	+¼
22⅞	17⅛	Albany Int	0.40	1.8	24	113	22¾	22½	22¾	
16	12¼	Albertl	0.20	1.3	18	1708	15½	15⅜	15½	+⅛
32½	25⅞	AlbCuB	0.32	1.0	17	122	32⅛	31⅜	31⅜	-⅞
28	23	AlCulvr A	0.32	1.2	20	126	26⅞	26½	26⅝	-½
32½	27¼	Albtsn	0.52	1.8	16	16852	28¾	28	28⅛	-⅝
30⅛	23⅜	AlcoAl	0.30	1.0	24	2138	29⅝	29¼	29⅜	-½
75	61⅞	AlcoSt	1.04	1.4	49	1335	74⅝	73¼	73¾	-⅞
46⅜	29½	AlexBrown	0.70	1.5	11	1141	u47⅝	45½	47⅝	+1⅜
26⅝	18½	AlexAl	0.10	0.4	12	409	24⅜	23½	23⅞	-⅝
23	18⅜	Allegh Lud	0.48	2.3	60	2044	20¾	20½	20¾	
25⅛	21½	AllegP	1.64	7.0	12	1351	23½	23¼	23½	
25¾	21¼	Allen Con	0.20	0.8	20	167	24½	24¼	24¼	
30¼	25¾	Allergan	0.48	1.8	15	1042	27	26⅝	26¾	
20⅛	15⅜	Allnce Cap	1.64	8.6	11	229	19⅝	18⅞	19	-⅜
9⅝	8⅜	Allnce Gl	0.18	2.0		165	9¼	9⅛	9⅛	-⅛
29½	23½	Ald Irish	1.01	3.5	16	12	28⅞	28⅝	28⅝	-⅛
41⅞	33⅜	AlkSig	0.78	2.0	14	4207	40¼	39½	39¾	-½
10⅛	9¼	Allmer	0.84	8.5		112	10	9⅞	9⅞	-¼
31⅝	23½	Allstate	0.78	2.7	28	1429	29⅞	28¾	29	-¾
31	23¼	Alltel Crp	0.96	3.8	17	1452	25¼	25	25⅛	-⅛
6⅜	5	Alheusta			13	519	5¼	5⅛	5⅛	-¼
29⅞	23¼	Alumax			8	1053	u30	29¾	29¾	
48⅞	36⅞	Alcoa	0.90	2.0	11	4524	45⅝	44¾	44¾	-¾
24⅛	18⅛	Alza Cp A			29	9573	21⅝	20½	21½	+¾
7⅝	5⅝	AmGovInc	0.98	14.0		510	6⅞	6¾	6⅞	
10	7⅝	Am Precis	0.26	2.7	17	77	9⅝	9½	9½	+⅛
6⅛	4½	AmaxGd	0.08	1.5	9	2405	5½	5⅜	5⅜	
22¼	17½	Amcast Ind	0.52	2.7	10	169	19⅜	19⅛	19⅜	+⅛
53⅛	43¾	Amdahls	0.60	1.2	310	1379	49¾	49½	49⅝	
42⅛	36⅝	AmBrnd	2.00	5.1	8	4312	39⅞	39¼	39¼	-⅜

Continued on next page

4 pm close June 9

NYSE COMPOSITE PRICES

Continued from previous page

1995 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chge Prev. Close
43 3/4	32 7/8	Salomon	0.64	1.6	10	1793	41	39 7/8	40	-1 1/4
22 7/8	19 1/8	SnDgGE	1.56	7.3	18	353	21 7/8	21 3/8	21 1/2	-3/8
10 1/8	8	SantaFeEls	0.16	1.6	92	1917	u10 1/2	9 7/8	10 1/8	+1/8
13 3/8	9	SFeGd	0.05	0.4	29	4007	13 1/8	12 3/4	12 7/8	-1/8
37 7/8	33 1/4	SFePPipe	3.00	8.1	9	70	37 1/8	36 7/8	37	-1/4
24 1/2	17 1/8	SanFeP	0.10	0.4	27	6739	24	23 3/4	24	
28 1/2	24 1/4	SaraLee	0.68	2.5	51	3696	27 1/8	27	27	-1/8
46 1/8	38 5/8	SBC Cm	1.65	3.6	15	7218	45 5/8	44 3/4	45 1/8	-1/2
23 1/4	20 1/2	Scana Corp	1.44	6.7	13	683	22	21 3/8	21 1/2	-1/8
18	14 1/2	Scecrp	1.00	5.9	10	6560	17 1/2	17	17	-1/2
11 1/4	7 1/4	SchawkA	0.26	3.2	12	51	8 1/4	8	8	-1/4
50 1/4	42 1/4	ScheringP			25	480	47 1/4	46 1/2	46 3/4	-1/2
81 1/8	71	SchePl	2.32	2.9	16	3948	u81 1/8	79 3/4	80 3/8	-3/8
66 1/2	60 1/4	Schlmb	1.50	2.4	27	2037	64 1/8	63 1/8	63 3/4	-7/8
46 3/8	28 3/8	Schwab(C)	0.24	0.6	24	1198	38 1/4	37 3/8	37 3/8	-3/8
24 7/8	17 1/2	SciAtl	0.06	0.3	22	4281	19 1/4	18 7/8	18 7/8	-1 1/8
19 3/4	16 7/8	Scotman	0.10	0.5	12	3	19 1/2	19 3/8	19 1/2	
46 1/2	33 1/2	ScottP	0.40	0.9	19	5712	43 1/2	42 7/8	42 3/4	-5/8
37 1/4	26 3/8	Scripps	0.52	1.7	18	113	31 1/8	30 3/4	30 7/8	-1/4
21 1/2	14 3/8	Scud44NAsF	0.02	0.1		146	15 3/4	15 1/2	15 1/2	-1/8
10 1/4	8 5/8	ScudomNEuF	0.15	1.6		553	10	9 7/8	9 7/8	-1/8
16 1/2	13 3/8	SeaCnB	0.70	4.7	11	2	15	15	15	-1/8
16	14 5/8	SeaCT.4625	1.48	9.5		12	15 5/8	15 1/8	15 5/8	+1/8
39	23 5/8	S'gate			11	16812	u40 1/4	38 5/8	39 1/4	+1 1/8
32 7/8	25 5/8	Seagrm	0.60	2.1	15	6258	28 7/8	28 3/8	28 5/8	-3/8
20	15 3/4	Seagull Es			13	471	18 1/2	18 3/8	18 3/8	
45 1/2	35 7/8	Sealed Air			21	177	44 3/4	44 1/4	44 1/2	-1/2
57 3/8	44 1/8	SearsR	1.60	2.8	11	8922	56 7/8	56	56 5/8	-5/8

- V -

- W -

- U -

- X - Y - Z -

- T -

AMEX COMPOSITE PRICES

4 pm close June 9

- R -

- S -

NASDAQ NATIONAL MARKET

4 pm close June 9

- E -

- F -

- B -

- G -

- C -

- D -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

FT GUIDE TO THE WEEK

MONDAY 12

EU foreign ministers meet

European Union foreign ministers meet for two days in Luxembourg to prepare for the Cannes summit at the end of the month. Ministers hope to agree in principle the EU's external spending priorities in the next five years. They will also consider a Commission request for powers to negotiate a free-trade agreement with South Africa and whether to unblock an interim agreement with Russia held up because of the war in Chechnya.

Association agreements with Estonia, Latvia and Lithuania are also due to be signed, paving the way for their eventual membership.

European Parliament session

The European Union's elected assembly holds a week-long plenary session in Strasbourg. The parliament will hear the plans for the Cannes summit. Also on the agenda are economic and monetary union and a proposal to set up a special rapid response unit for Bosnia.

German ideas on Emu

The bane of Eurosceptics, Karl Lamers, foreign policy spokesman for Chancellor Helmut Kohl's CDU party, meets other senior members of the party in Berlin to refine the paper he presented in September 1994 suggesting an inner core of European Union countries should be prepared to go it alone on monetary union. Mr Lamers is unrepentant, despite the outcry at the time, saying in a recent interview that the debate now was about "opting in" on Europe's future and not the other way round.

Sweden speaks on Emu

Sweden's Social Democratic government will set out its plan to meet the EU's convergence targets for European Monetary Union. It has already promised a heavy privatisation programme and more savings to cut the budget deficit and stabilise the country's sky-high debt, but markets remain sceptical that it can meet Emu targets by 1998.

BIS meeting and report

The Bank for International Settlements, the central bankers' bank, holds its annual board meeting and releases its 65th annual report after a weekend of highly secretive meetings. The markets will be watching for any hint that Group of Seven banks are preparing for co-ordinated action in support of the dollar. Meanwhile, the report will be scrutinised for signs of concern about the recent financial market turbulence and derivatives scandals.

US and Japan talk cars

Japanese and American negotiators meet today and tomorrow at the World Trade Organisation in Geneva to try to resolve their car trade row. Japan says threatened US sanctions on nearly $6bn of Japanese luxury car imports violate WTO rules. Washington wants Japan to open its market to more foreign cars and car parts.

Drive time: Japan and the US meet today at the World Trade Organisation in Geneva to discuss their car trade row

Rao visits France

P.V. Narasimha Rao, India's prime minister, leads a trade delegation to France to meet President Jacques Chirac, prime minister Alain Juppé and captains of French industry. India will also seek France's support in combating terrorism.

CBI boss visits Mexico

Howard Davies, director-general of the Confederation of British Industry and soon-to-be deputy governor of the Bank of England, starts the first full day of a visit to Mexico (to June 14). Mr Davies will be discussing the problems of achieving international monetary stability with President Ernesto Zedillo and the governor of the Bank of Mexico, Miguel Mancera. The UK is the second-largest investor in Mexico after the US.

Indian Ocean forum

A two-day forum on the Indian Ocean Region opens in Perth, Western Australia. Participants from governments, the private sector and universities of some 30 countries which border the Indian Ocean are due to discuss a mixture of economic, trade, security, and maritime issues. The forum meets amid calls for the Indian Ocean countries to emulate the dialogue in the Asia-Pacific region.

Crackdown in Nigeria

Nigeria's military regime has arrested civilian opponents and reinforced its paramilitary police in Lagos and the south ahead of protests planned to mark the second anniversary of the presidential election. The poll was annulled in June 1993 after Moshood Abiola had emerged as the winner. A year ago Abiola declared himself president, was arrested and charged with treason. This led to months of strikes and protests. Abiola is still in jail and the government has yet to come up with a plan for democratic rule.

Tennis

The Stella Artois grass court championship starts at Queen's Club, west London (to June 18). The event traditionally allows players to get in the rhythm of playing on grass as they prepare for the Wimbledon tournament which begins on June 26.

FT Surveys

Turkey and Aerospace.

Holidays

Australia (except Western Australia), Cyprus, Greece, Paraguay, Philippines (Independence Day), Russia (Independence Day), Sri Lanka.

TUESDAY 13

Bosnia mediators meet

The steering committee of the International Conference on Former Yugoslavia meets in Geneva to take stock of the flagging peace process. United Nations mediator Thorvald Stoltenberg will be in the chair. Former Swedish premier Carl Bildt takes over from Lord Owen as co-chairman and European Union mediator in the four-year-old conflict.

Ruggiero in Washington

Renato Ruggiero, head of the World Trade Organisation, meets Mickey Kantor, US trade representative, and Robert Rubin, US treasury secretary, in Washington to discuss WTO negotiations on financial services, due to conclude by June 30. The US stance will be crucial in determining whether the talks succeed or fail.

US small business forum

At a White House conference on small business, companies will be urged to take advantage of trade opportunities in the world's fastest growing markets.

Holidays

Portugal (Lisbon only), Russia.

WEDNESDAY 14

UK economic policy

Kenneth Clarke, chancellor of the exchequer, delivers his annual Mansion House speech in London, which normally concentrates on monetary policy. Some economists expect Mr Clarke to announce what inflation target he plans to pursue after the next election. Tory backbenchers will be looking for hints of tax cuts.

Trade union report

The International Confederation of Free Trade Unions publishes its annual survey of human rights violations against trade unionists around the world, to coincide with the annual conference in Geneva of the International Labour Organisation. A record 98 countries are accused of abuses ranging from administrative interference to arrests and assassinations.

He did it his way

William Aramony, former president of the United Way of America, an umbrella organisation for US charities, is sentenced for stealing more than $600,000 from the organisation. Revelations about his perfidy hurt charities across the US.

THURSDAY 15

G7 summit opens in Canada

Heads of government and finance ministers from the Group of Seven leading industrial countries gather in Halifax, Nova Scotia, for their three-day summit. Topics for discussion include ways to equip the International Monetary Fund to deal better with financial crises such as that which struck Mexico earlier this year, and reform and rationalisation of the United Nations. But the formal agenda may well be overshadowed by events in Bosnia.

Russia's President Yeltsin is expected to arrive at the end of the first day of global economic talks to take part in a second day of mainly political discussions.

UK politics

A by-election is held in the Northern Ireland constituency of North Down, caused by the death of the independent Unionist, Sir James Kilfedder. It is the first since the IRA called a ceasefire in September 1994.

The independent UK Unionist Robert McCartney, a leading barrister and ardent critic of the Anglo-Irish framework document that has guided the political process in the province, is expected to defeat the Ulster Unionist candidate, further reducing the government's majority in the Commons. Sir James had been largely loyal to Prime Minister John Major.

Lavish art prizes awarded

The most extravagant arts awards in the world, the Praemium Imperiale, are to be distributed at the Banqueting House in London. They are financed to the tune of Y75m ($890,000) by the Japan Art Association.

Five prizes each worth Y15m are given to artists in the fields of painting, sculpture, theatre\film, architecture and music. The winners tend to be the globally established; past recipients include Sir John Gielgud, David Hockney and Mstislav Rostropovich.

Golf

Watch out for a revitalised Ernie Els in the US Open at Shinnecock Hills, New York. He has run into form at just the right time, winning the recent Byron Nelson Classic in Texas with birdies at four of the final six holes.

FT Survey

Telecommunications in Business.

Holidays

Austria, Bolivia, Brazil, Chile, Costa Rica, Catholic parts of Germany, Poland (Corpus Christi).

FRIDAY 16

US local government

US Conference of Mayors. City officials descend upon Miami to discuss mutual problems and their solutions.

Japanese calamities

Japanese government to release white paper on disaster prevention.

Holidays

South Africa (Youth Day).

SATURDAY 17

Dry day

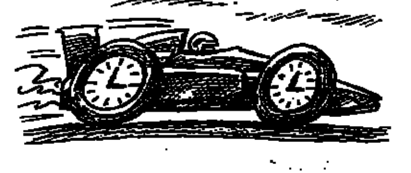
The United Nations has declared today the first World Day against desertification and drought. This now affects nearly a quarter of the earth's surface, more than 100 countries and more than 1bn people.

Reichstag wrap-up

Christo, the Bulgarian artist with a penchant for packaging Parisian bridges and islands off Florida, will start wrapping Berlin's Reichstag. The building is just metres away from where the Berlin Wall used to stand.

The operation, planned since 1971, is expected last a week and to cost about DM13m ($9m). It will be financed through the sale of prints of the vast parliament building enfolded in 100,000 sq m of the material that has become Christo's trademark.

Motor racing



The Le Mans 24-Hour Race begins. Much of the interest will centre on the McLaren F1 supercars, competing at the French circuit for the first time.

SUNDAY 18

French municipal elections

Voters go the polls for the decisive second round of municipal elections which will determine the balance of local political power. The right hopes to capitalise on Jacques Chirac's presidential election victory last month, while the Socialists are seeking to reverse a decline in their influence in municipal politics. Local issues, however, will dominate the battles for the more than 500,000 local council seats and control of France's 36,600 cities, villages and towns.

Japanese politics

The Diet session is due to end.

Compiled by Patrick Stiles.
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ECONOMIC DIARY

Other economic news

Monday: A two-day World Bank conference on Latin America and the Caribbean begins in Rio de Janeiro.

UK producer price inflation is thought to have picked up slightly in May.

Tuesday: US retail sales are thought to have more than reversed April's small fall last month.

Growth in the French economy is forecast to have accelerated slightly in the first quarter of the year.

Wednesday: The Bundesbank's policy-making council meets in Magdeburg, in the eastern German state of Saxony-Anhalt. No interest rate cuts are expected yet, but – as usual when the German central bank meets outside Frankfurt – a press conference will be held.

Theo Waigel, finance minister, will attend the meeting before flying to the G7 summit in Canada.

Thursday: UK retail price inflation is thought to have been relatively stable last month, while retail sales are expected to recover after their unexpected drop in April.

Friday: The UK government is expected to have borrowed £3.5bn last month, down from £4.3bn in April.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	France	May consumer price indx, prelim**	1.6%	1.6%
June 12	UK	May producer price indx input*	0.4%	0.7%
	UK	May producer price indx input**	10.3%	11.5%
	UK	May producer price indx output*	0.3%	0.4%
	UK	May producer price indx output**	4.1%	4%
	UK	May PPI, ex-food, drink & tobacco**	4.2%	4.1%
	Spain	Apr producer price indx**	7.5%	7.1%
Tues	US	May retail sales	0.6%	-0.4%
June 13	US	Ditto ex-autos	0.4%	0.1%
	US	May consumer price indx	0.3%	0.4%
	US	Ditto ex-food & energy	0.3%	0.4%
	US	May Atlanta Fed indx	-	-22.1
	US	May real earnings	-	0.6%
	US	Johnson Redbook w/e June 10	-	1.8%
	Japan	Apr machine orders ex-power/ships*	0.3%	-0.6%
	Japan	Apr mach orders ex-power/ships**	7.6%	0.1%
	France	1st qtr GDP prelim, qtr on qtr	0.5%	0.6%
	Spain	May consumer price indx*	0.3%	0.5%
	Spain	May M4*	-	10.7%
Wed	US	1st qtr productivity revenue	-	0.7%
June 14	US	Apr business inventories	0.7%	0.7%
	France	Mar current a/c	FFr8bn	FFr8.6bn
	UK	May unemployment	-18,000	-18,800
	UK	Apr average earnings	3.75%	3.5%
	UK	Apr unit wages 3-m**	2.1%	1.8%
Thur	US	Inititial claims w/e June 10	375,000	372,000
June 15	US	State benefits w/e June 3	-	2.59m
	US	May industrial production	-0.3%	-0.4%
	US	May capacity utilisation	83.6%	84.1%
	US	June Philadelphia Fed Indx	-	-16.4
	Japan	Apr industrial production†	-	-0.2%
	Japan	Apr shipments†	-	2%
	Japan	May wholesale price indx*	0.0%	-0.6%
	Japan	May wholesale price indx**	-1.6%	-1.5%
	UK	May retail price indx*	0.4%	1%
	UK	May retail price indx**	3.4%	3.3%
	UK	Ditto, ex-mortgage int payments**	2.6%	2.6%
	UK	May retail sales*	0.3%	-0.2%
	UK	May retail sales**	1.1%	0.8%
	Canada	May lead indicator*†	-	0.2%
Fri	US	June Michigan sentiment, prelim	-	89.8
June 16	UK	May public spending borrowing req	£3.5bn	£4.3bn
	Canada	May consumer price indx, all items**	-	2.5%
During the week...				
	Japan	May trade balance, customs cleared	-	$6.5bn
	Japan	1st qtr gross domestic product†	2.1%	-3.4%
	Germany	Feb manufacturing orders*	3.5%	-7.4%
	Germany	May wholesale price indx*	0.1%	-0.1%
	Germany	Apr retail sales, real	1%	-7%

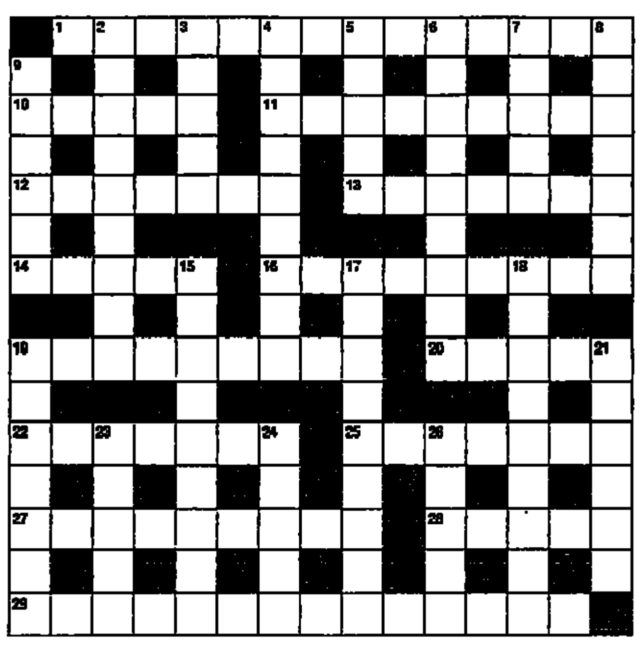
*month on month, **year on year, †seasonally adjusted. *Statistics, courtesy MMS International.*

MONDAY PRIZE CROSSWORD

No.8,785 Set by DANTE

ACROSS
1 Listens to the complete record; an impartial judge does (5,4,5)
10 It was ground in the gutter (5)
11 The last word in disputes (9)
12 A drifter of a coldly detached nature (7)
13 An idiot is not sharp (7)
14 Boring commercial for wood spirit (5)
16 University having two scholars in exchange (4,5)
19 Now prepared to be spoken to (9)
20 Animals there's a market for (5)
22 We stop dancing after square dance (3-4)
25 Much of his life is spent behind bars (7)
27 It gives details of a reduced fare (4,5)
28 Aside given to an actor to speak? (5)
29 Prospects of a cosy retirement (8,6)

DOWN
2 Having the look of a powerful flier (5-4)
3 Wander about in the mountains (5)
4 Miserable informer mown down in Kentucky? (9)
5 It came up to beat a giant (5)
6 Occasionally I seem most annoyed (9)
7 Prevent animal swallowing the tin opener (5)
8 He has a taste for a bit of embroidery (7)
9 Took off and rose to the occasion in mid-air (6)
15 They take part in acts of duplicity (9)
17 Thought me old fashioned about it (9)
18 Where to see the beginning – and end – of the rainbow (5-4)
19 Caused trouble, getting Bill and Edward out of bed (5,2)
21 Eastern style of serving chops? (6)
23 Overweight round-headed wild bees (5)
24 Clean down (5)
26 Calm sports master (5)



A prize of a Pelikan New Classic 390 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday June 22, marked Monday Crossword 8,785 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday June 26. Please allow 21 days for delivery of prizes.

Name..........

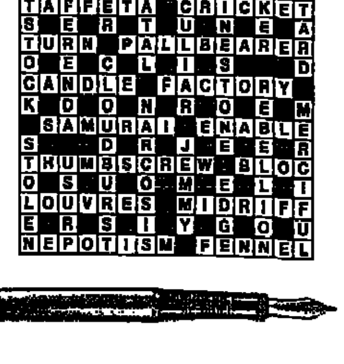
Address..........

....

Winners 8,773

Mrs Cianchi, Bromham, Bedford
D. Brogden, Milton Malsor, Northampton
Mrs N. Emery, Bracknell, Berkshire
J. Ford, St Austell, Cornwall
G.M. Glasgow, Milngavie, Glasgow
Judy Smith, London SW14

Solution 8,773



AEROSPACE

Global aerospace companies are looking with growing interest at China. Page 6

Leading European airports are working on ambitious expansion plans. Page 9

Monday June 12 1995

Orders fail to materialise

Despite impressive developments in high technology products, a fragile airline industry is still not providing enough business to go round, says **Michael Skapinker**

This spring Boeing proudly unveiled its new 777 at Boeing Field in Seattle – its first wholly new aircraft in 13 years. Less than a week later, Boeing employees heard that the total number of expected job losses at the group this year had risen from 7,000 to 12,000.

The bewildering speed with which bad news followed good is not unique to Boeing, the world's largest aircraft manufacturer. Throughout the aerospace industry, senior executives mix talk of new high technology products with fear for the economic future of their companies.

Boeing says that its new twin-jet aircraft, which carries up to 400 passengers, attracted 144 firm orders and 99 options even before it entered commercial service. Yet a relentless reduction in jobs remained necessary because of the intense competition in the aircraft market. By the end of this year, the group is expected to have 105,000 employees, compared with about 166,000 at the end of the 1980s.

At Airbus Industrie, the European manufacturing consortium, similar concerns can be heard. Jean Pierson, Airbus' managing director, says the four companies which own the consortium – Aerospatiale of France, Daimler-Benz Aerospace (Dasa) of Germany, British Aerospace and Casa of Spain – have had to make similar adjustments to a more competitive market.

A problem facing aircraft manufacturers around the world is the still-fragile state of the airline industry. The world's airlines made an aggregate $1.8bn net profit last year on their international scheduled services – their first profit since 1989 – but this figure represented only 1.6 per cent of the airlines' aggregate revenues.

The industry's two star performers, British Airways and Singapore Airlines, both announced profit increases last year, but warned that yields – revenues per kilometre travelled by paying passengers – remained subdued.

BA made pre-tax profits before exceptional items of £452m for the year to March 31, an increase of 61.4 per cent. The results were dented, however, by a £125m exceptional provision against BA's investment in USAir, the loss-making carrier in which it has a 24.6 per cent stake.

Singapore Airlines announced group pre-tax profits of $676m, an increase of 9.9 per cent but said passenger load factor – or aircraft occupancy – fell 0.5 percentage points to 70.9 per cent. Passenger yields fell 1.8 per cent.

BA had better news on its passenger load factor, which increased 1.6 percentage points to 71.6 per cent. But Sir Colin Marshall, BA's chairman, said the airline's passenger yield increased by only 0.6 per cent and would remain under pressure.

Both airlines have ambitious fleet expansion plans. Singapore Airlines last year placed a $10.3bn order for 52 aircraft – 22 Boeing 747-400s and 30 Airbus A340-300Es for delivery between next year and 2003. Eleven of the Boeing and 10 of the Airbus aircraft are firm orders, with the remainder being options.

BA also plans to modernise its fleet, with older, more noisy aircraft being phased out by the beginning of the next century. BA says that by 2010, its long-haul fleet at its Heathrow airport base will consist of Boeing 747-400s, enlarged versions of the 747 and the "super-jumbo" aircraft that it hopes will be built. The airline also has 15 firm orders and 15 options for the new Boeing 777.

Both Boeing and Airbus are convinced the long-term future of the industry is bright. Airbus forecasts that airlines will spend over $1,000bn on 13,400 aircraft over the next 20 years. Boeing has produced similar figures, saying it expects orders for about 15,400 aircraft from all manufacturers over the next two decades.

About 5,400 of these will be replacement aircraft, Boeing says. New noise regulations will mean companies having to replace older aircraft such as Boeing 727s and 737-200s, as well as DC-9s. There will be an additional demand for about 10,000 new aircraft, based on projected airline traffic growth of about 5 per cent a year.

But Ron Woodard, president of Boeing's Commercial Airplane Group, warns: "This growth rate is based on several assumptions, of course, such as no more Gulf Wars, no sudden run-ups in oil prices, no worldwide depression."

In the meantime, however, some airlines, such as Air France, have cancelled orders and options. Mr Pierson says that, in the short-term, many airlines seem determined to hold on to their old aircraft for longer periods rather than order new ones.

Philip Condit, Boeing's president, believes passengers will continue to place airlines under pressure. He says: "I think there will be a continued thrust for, in the British vernacular, value for money: if I pay more, I get more."

The result, aerospace executives say, is that any new product, such as a "super-jumbo", will have to have lower operating costs per seat than aircraft flying today. The "super-jumbo" has its adherents, led by Sir Colin Marshall of BA, whose company needs larger aircraft to help ease congestion at Heathrow airport. There are also executives, such as Louis Gallois, chairman of Aerospatiale, who believe that the aerospace industry should concentrate instead on building a supersonic successor to Concorde.

A joint study between Boeing and the Airbus shareholding companies into the feasibility of a passenger jet capable of carrying 600 or 800 passengers is due to be competed this summer. Mr Condit and Frank Shrontz, Boeing's chairman, are unwilling to prejudge the outcome of that study.

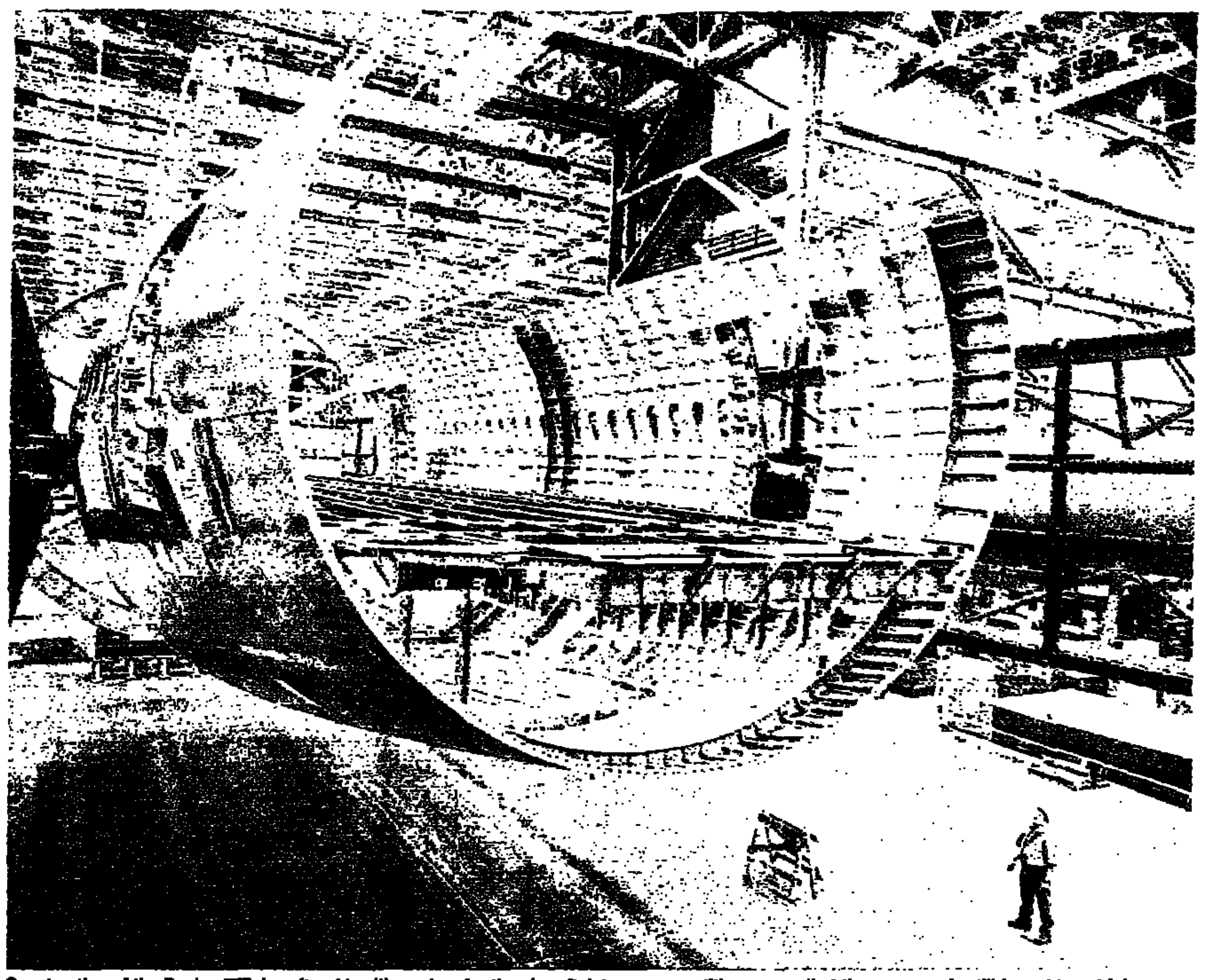
Both concede, however, that the market for a new large passenger jet does not appear to be large enough to justify proceeding with development. The consensus in the industry is firmer: the "super-jumbo" will not be built.

Mr Pierson says that only BA has expressed all-out enthusiasm for an extra-large subsonic aircraft, with Singapore Airlines also showing some interest. This is not a large enough market to justify the investment, he says.

Mr Shrontz agrees: "We would have to have more than just British Airways in the launch programme." Other airlines would have to place orders relatively quickly to justify the large launch costs of the aircraft. Other potential customers are "a bit thin right now. And that's not surprising. Most airlines, unlike British Airways, are struggling financially".

Industry observers think that a more likely scenario than a "super-jumbo" is that Boeing will build a "stretched" version of the 747 and that Airbus will enlarge its A340 aircraft. Mr Gallois argues that if world aerospace companies decide to abandon a larger subsonic aircraft, they should devote their energies to a supersonic jet. The development costs of the two projects are about the same, he says – $15bn. Companies would have to co-operate on a new supersonic aircraft, he says. It is too big a project for any company to carry out alone.

Mr Shrontz says of a new supersonic jet: "There's a wide division of opinion in the Boeing company. I happen to be on the side that says that while it's not just round the corner, it will come."



Construction of the Boeing 777: in spite of healthy orders for the aircraft, intense competition means that the company is still forced to cut jobs

IN THIS SURVEY

Editorial production: Sarah Murray

AEROSPACE 2

Michael Skapinker analyses the competition between manufacturers

Fierce rivalry continues

When Boeing of the US, the world's leading aircraft manufacturer, launched its 777 passenger jet, it decided to remake the company as well.

Boeing says it now works with potential airline customers at every stage of the planning, design and manufacturing process. Within the company, different departments are now encouraged to work together.

Airbus Industrie, the European consortium which is Boeing's largest rival, retorts that it has been working closely with customers for years. But several senior figures in Airbus believe that they, too, need to remake their organisation, turning it from a non-profit-making partnership into a fully-fledged limited company.

The rivalry between Boeing and Airbus is fierce. Boeing remains the leader, with about two-thirds of the international market for civil aircraft over the past few years. Airbus has about a third of the market and has displaced other US manufacturers such as Lockheed and McDonnell Douglas, which is now in a distant third place.

Last year, Airbus said it won more orders than Boeing for the first time since the European consortium was founded in 1970. Airbus said: "It's the first time since the advent of the jet age that Boeing has lost its number one spot in airline orders."

Boeing has dismissed last year's order figures as being of little significance. It says that what is important in the aerospace industry is how many aircraft a company actually delivers, not how many orders it achieves. Boeing believes it will hold on to its number one position.

Frank Shrontz, Boeing's chairman, says: "I don't think the fact that they have more orders is significant. They are clearly broadening their product line and they do have significant resources behind them. I don't think we've taken them lightly but we are determined to keep our leadership position in the market."

All the same, competition from Airbus was clearly a factor in Boeing's decision to launch the 777, a twin-jet aircraft designed to compete against the Airbus A330 and A340.

United Airlines, the launch customer for the 777, shamelessly played off Boeing against Airbus and McDonnell Douglas, with its MD-11 aircraft, before making its choice.

Gordon McKinzie, United's 777 programme manager, describes how, in October 1990, the airline invited all three manufacturers to try to make the case for their aircraft at a series of meetings in Chicago.

Also invited were the world's three leading engine manufacturers, General Electric and Pratt & Whitney of the US and Rolls-Royce of the UK. United chose the 777, with Pratt & Whitney engines, and then worked closely with Boeing on the development of the aircraft.

Boeing also worked with three Japanese manufacturers in the development of the 777. Mitsubishi Heavy Industries, Kawasaki Heavy Industries and Fuji Heavy Industries together built 20 per cent of the airframe.

It is unlikely that Boeing will build future new aircraft alone. It is talking to Asian companies about collaborating on future small aircraft. On larger aircraft, the two rivals, Boeing and Airbus, are talking about working with each other.

Boeing and the four companies which own Airbus – Aerospatiale of France, Daimler-Benz Aerospace (Dasa) of Germany, British Aerospace and Casa of Spain – are studying the development of a Very Large Commercial Transport (VLCT), with Airbus itself as an observer. The two sides see the VLCT as a double-decker aircraft, capable of carrying 600 or 800 passengers.

Boeing is talking to Asian companies about collaborating on small aircraft

There is doubt on both sides that the market for such an aircraft is big enough, with only British Airways and Singapore Airlines expressing any real interest.

There also appears to be some doubt on both sides as to whether the two organisations could work together on the project. Some of the wariness was apparent in comments made in Seattle last month by Ron Woodard, president of the Boeing Commercial Airplane Group.

Mr Woodard said that while the two organisations were still studying the VLCT, "Airbus is eager to go it alone". Jean Pierson, managing director of Airbus, has expressed doubts about whether the difference in culture between Boeing and the European consortium would make co-operation feasible.

Mr Pierson, at the same time, is keen to change Airbus' culture. Since its inception, the consortium has been a Groupement d'Intérêt Economique (GIE). Under French law, a GIE makes no profits or losses in its own right. All profits and losses accrue to the four shareholders in proportion to their stakes. Aerospatiale and Dasa each have 37.9 per cent, British Aerospace has 20 per cent and Casa has 4.2 per cent.

Mr Pierson, strongly supported by British Aerospace, wants to see Airbus become a profit-making company. Louis Gallois, chairman of Aerospatiale, says he is not opposed to change either.

"We are pragmatic for once," he says. "The French are not used to being pragmatic but we are on this one. We have to find a solution to improve Airbus management and functioning. If we have to create new entities to improve the functioning of Airbus, there's no opposition from the Aerospatiale side."

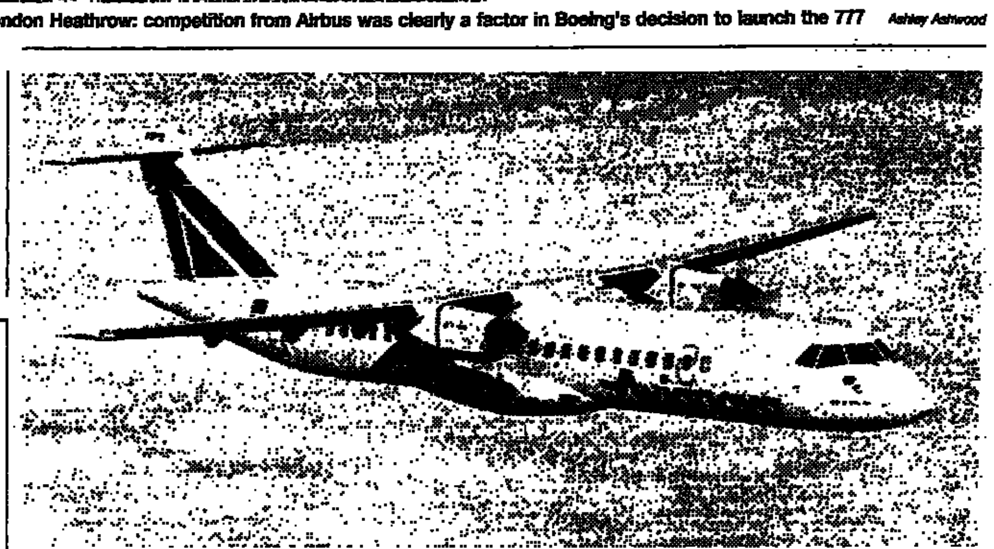
Manfred Bischoff, the newly-appointed chief executive of Dasa, is slightly more cautious about changing the legal status of Airbus.

He says: "Contrary to what public opinion usually assumes, the structure we have today, the GIE and the Airbus system, has considerable advantages. It brings together the creativity of nations that have a lot in common but that are partially different. I know it's nonsense to talk about the typical French, British or German person, but there are some attributes of those countries that we find working together creatively in Airbus."

Mr Bischoff says he is not opposed to change. "I believe today every Airbus partner believes it would be an advantage to be a simple company. But the question we have to answer is: who would run that company? I believe all four nations have to stay involved."

Mr Pierson also believes the four partners will have to retain their existing shareholdings in a limited company, at least for the first five years.

United Airlines first 777 arrival at London Heathrow: competition from Airbus was clearly a factor in Boeing's decision to launch the 777 *Ashley Ashwood*


The ATR 72 aircraft for regional transport, designed and manufactured by Alenia and Aérospatiale

Regional aircraft manufacturers are forming alliances

Consolidation seen as the way forward

Earlier this month, French, British and Italian manufacturers are expected to finalise plans to market regional aircraft jointly.

In Asia, industrialists are talking to European and US companies about how they too can manufacture 100-seat or 120-seat aircraft.

Many countries with aspirations to be aircraft manufacturers hope to begin by making small turboprops or jets to carry passengers on shorter routes. There are 17 companies involved in the regional aircraft business, from Casa of Spain to IPTN of Indonesia.

New entrants hope to manufacture regional aircraft because the start-up costs are lower than those required for making large passenger jets. The market for regional air travel is growing fast. The European Regional Airlines Association says passenger growth in Europe increased by 15.2 per cent last year over 1993.

Mike Ambrose, the association's director general, says the regional air travel industry in Europe does face problems, including the high level of landing fees, air traffic control charges and taxes.

He says, however, that many air travellers have come to appreciate the convenience of flying on short journeys in smaller aircraft, whose quality has improved. He says: "Europe's frequent flyers are realising that their local option offers much more than in the past in terms of convenience, quality and aircraft technology."

In the US, regional air travel has also been growing more quickly than flights in larger aircraft. The Regional Airline Association of the US says its members' traffic rose by 10 per cent last year. This compares with an increase of 5.3 per cent in passengers making internal US flights in larger aircraft.

The problem is, however, that while the number of passengers flying on regional routes is rising, few companies making the aircraft to carry them are making profits on these operations.

Competition between manufacturers is so fierce that British Aerospace said earlier this year that it was losing money on its Jetstream 41 30-seat turboprop even though it had two years' worth of orders for the aircraft.

In an attempt to stem their losses, BAe, Aérospatiale of France and Alenia of Italy have set up a joint venture, merging their regional aircraft sales and marketing companies. Aérospatiale and Alenia already manufacture regional aircraft together as part of the ATR joint venture.

The new three-way alliance will have its headquarters in Toulouse, also the home of the Airbus Industrie manufacturing consortium, which makes larger passenger jets. Eventually, the regional aircraft alliance might begin joint manufacturing.

Some in the aircraft business believe, however, that the three-way European alliance does not go far enough in rationalising the sector. Unless Asian manufacturers are included in regional aircraft alliances, they say, the joint ventures will have little chance of succeeding. Much of the growth in regional air travel will, on this view, occur in Asia.

A common approach to regional aircraft makes it more likely that Asian manufacturers would choose European partners than US ones

Not everyone agrees, however. Adam Brown, Airbus' head of strategic planning, says that over the next 20 years, 70 per cent of demand for 100-seat aircraft will come from airlines in Europe and North America. Only 10 per cent of demand will come from airlines in the Asia-Pacific region and China.

With most demand for regional aircraft coming from airlines in mature western markets, Mr Brown warns: "Aspiring Asian suppliers of such an aircraft would note that these airlines may not be the most easily attracted by a 'Made in Asia' label."

The dearth in demand for regional aircraft in Asia will not be because local residents to not want to travel. Mr Brown says growth in Asian markets will be higher than in the west. Over the next 20 years, he expects air travel in North America to grow by 3.7 per cent annually. In China, on the other hand, he expects average annual growth of more than 10 per cent.

Asian airlines will absorb this growth, however, by flying with larger aircraft rather than smaller ones. Worldwide, the average number of seats in each aircraft is expected to rise from 179 today to 240 by the year 2014. Airlines in the Asia-Pacific region, however, will be flying aircraft with an average of 356 seats by 2014.

But many in the industry believe that they should conclude agreements with Asian manufacturers. Manfred Bischoff, chairman of Daimler-Benz Aerospace (Dasa), which is not part of the new European joint venture, says: "All-European solutions are no longer sufficient to safeguard the future. Daimler-Benz thinks it necessary to pass European borders and extend these activities to the Asian countries."

Dasa could do with a partner to help fund future ventures. Dasa's 51 per cent-owned regional aircraft subsidiary, Fokker of the Netherlands, is a heavy loss-maker. Fokker made a net loss of Fl449m in 1994. This followed a record loss of Fl460m loss in 1993.

In March, Dasa signed an agreement with a South Korean consortium, headed by the Samsung group, to develop regional aircraft together. Both the Korean consortium and Dasa have also agreed to develop regional aircraft with Aviation Industries of China.

The companies will prepare a feasibility study looking into building a jet capable of carrying between 100 and 120 passengers.

Dasa has made it clear that it would welcome other European manufacturers who wish to join it in developing new aircraft with Asian partners. It has received a positive response from Louis Gallois, chairman of Aérospatiale.

Mr Gallois says that after ATR and BAe have established their joint venture, they will have to think of ways of co-operating with Dasa and Asian manufacturers. European companies should not divide themselves into two warring camps, he says.

A common approach to regional aircraft would make it more likely that Asian manufacturers would choose European partners than US ones. Mr Gallois says: "I am convinced they will choose a European solution if we are united."

Michael Skapinker

Michael Donne finds smaller engine builders need alliances to survive the competition

International liaisons emerge

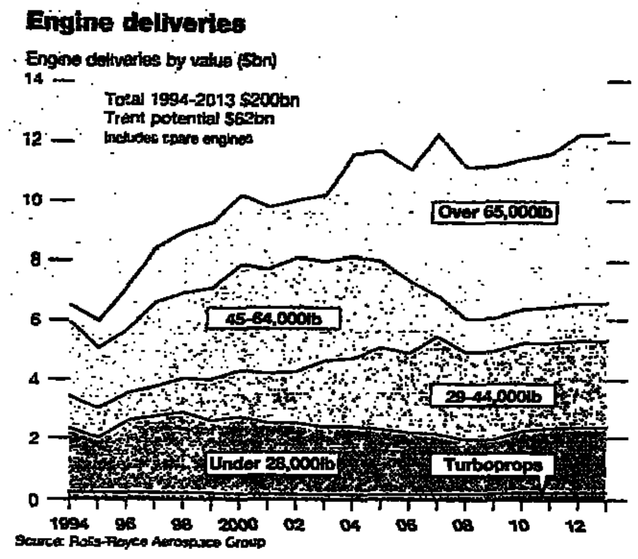
Much industry attention centres on the fierce commercial battles being waged worldwide for orders for "high-thrust" engines on the big commercial airliners such as the Airbus A-330/A-340, the Boeing 777 and the Douglas MD-II. But the aero-engine builders are just as deeply involved in the growing volume of business to be won in the medium and low-thrust sectors of the market, especially for short-to-medium range regional-type airliners and executive aircraft.

The world commercial engine business has suffered considerably as a result of the parlous financial state of the airlines through the recession.

Between 1990 and 1993, the world's airlines collectively lost some $15.6bn, and only crept back into a small $1.8bn profit in 1994 (much of which was contributed by a bare handful of airlines, including British Airways). Many airlines themselves have undergone drastic restructuring, with severe labour lay-offs and cancellations and deferrals of aircraft orders.

The engine manufacturers have felt the effects of this. Dr Terence Harrison, chief executive of Rolls-Royce, said in the company's recent annual report that 1994 "was a lean year for orders in the commercial aero-engine market", adding however that "new initiatives and joint ventures have opened up further opportunities and our engine development programmes, on which future prosperity depends, have made excellent progress".

Engine deliveries



Source: Rolls-Royce Aerospace Group

Predicted engine sales

	sales
A330/777	3,000
NLA/VLCT/A3XX	1,500
Total	4,500

Source: Rolls-Royce Aerospace Group

In the high-thrust engine market every source of business, however small in volume, is bitterly contested because once an airline has selected an engine manufacturer to power his new aircraft fleet he stays with that engine for many years, generating a high volume of business in spares.

The problem for the manufacturers is that with the leading airlines in financial straits, fewer orders are to be won in that expensive sector of the market. The hope, however, is that as airline profitability returns, so will the orders, although no-one expects anything like a return to sales of the late 1980s.

Rolls-Royce foresees a total world market for jet engines and spares of all kinds of some $200bn between 1994 and 2013, and it believes the potential business awaiting the high-thrust market in which its Trent family of engines is competing could amount to $62bn, the most valuable sector of all.

So far in the big-engine struggle in that sector against General Electric's GE-90 and Pratt & Whitney's PW-4000, both of the US, Rolls-Royce has done well.

The Trent 700, certificated at 72,000lbs thrust, has entered service on the Airbus A-330 with Cathay Pacific Airways, and has also been selected for A-330s by Garuda Indonesia, TWA of the US, Dragonair of Hong Kong, and International Lease Finance Corporation.

The more powerful Trent 800 has beaten both its rivals to certification at 90,000lbs thrust. It is now flying on the Boeing 777, is destined for service on 777s with Thai Airways in early 1996 and has been selected for 777s by Emirates (the Dubai flag airline), Cathay Pacific and Transbrasil. The Trent engine family has won about 40 per cent of the combined market A-330/Boeing 777 market.

With derivatives of the 777 and A-330/A-340 airliners planned for the future to carry even heavier loads over longer distances, all three aero-engine builders are planning to boost the power of their engines.

Rolls-Royce can push the Trent 800 further (it has already run on the test bed at 106,087lbs thrust) while General Electric is "working with Boeing and customers" on the possible development of a 105,000lbs thrust version of the GE-90 (which has run on the test bed at 110,000lbs thrust), while Pratt & Whitney plans to upgrade the PW-4000.

But it is in the medium-to-low thrust engine markets that most business is materialising, and here Rolls-Royce is also doing well, although again every contract won is the result of fierce struggles.

The company is involved across the full spectrum of civil engines, from the 1,900lbs thrust Williams-Rolls FJ-44 for small, affordable business jets, through the Tay of about 14,000lbs thrust and BMW-Rolls-Royce engines for executive aircraft and regional airliners, leading up to the collaborative International Aero-Engines venture, whose V-2500 series powers narrow-body short- to medium-range airliners, including the Airbus A-319, A-320 and A-321, in addition to the Douglas MD-90 twin-engined airliner.

The Rolls-Royce RB-211-535 dominates the Boeing 757 airliner market, while the 60,000lbs-plus thrust RB-211-524 series is widely used in Boeing 747 and 767 airliners.

The aero-engine industry has not escaped the restructuring that has swept through the airline and airframe manufacturing industries in recent years. All the leading engine builders have either shut factories and other facilities or cut labour forces, or both, in bids to cut costs and remain competitive, with the extensive introduction of new computerised design, development and production techniques.

At the same time, joint ventures and company amalgamations have been increasing. As in the airframe business, international collaboration on specific projects has long been practiced as a means of spreading costs and risks.

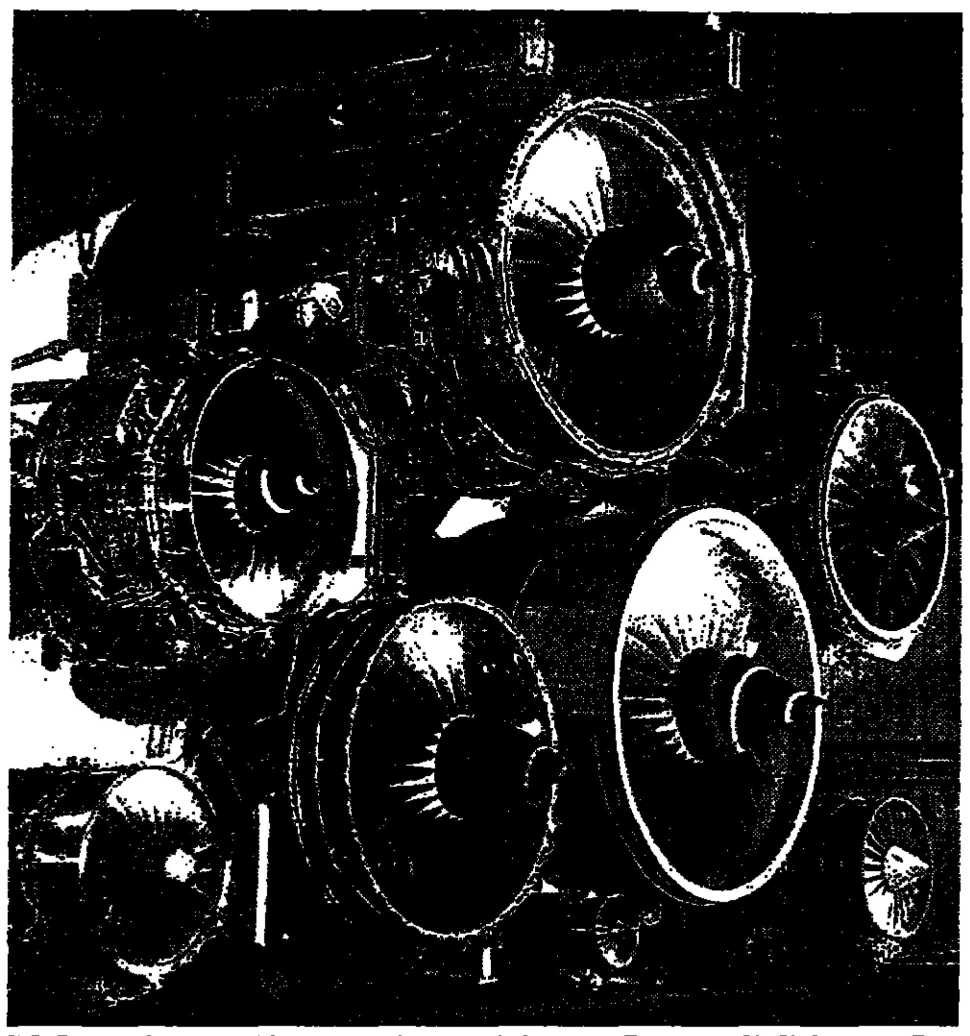
The IAE and BMW-Rolls-Royce ventures mentioned above are examples, while another is the joint venture between Snecma of France and GE of the US on the highly successful CFM-5 6 series of engines.

But more far-reaching international company liaisons and groupings are emerging. Earlier this year Rolls-Royce purchased the US Allison Engine Company. The latter is a world leader in light helicopter and large military turbo-propeller engines, so is seen as an excellent strategic fit for Rolls-Royce, adding a complementary range of engines to the UK company's existing range.

Between them, Rolls-Royce and Allison have a total of more than 50,000 engines of various types in service, one of the largest fleets in the world.

The hope lies in orders, although no-one expects a return to the sales of the late 1980s

These trends seem likely to continue. While all of the "big three" engine builders are strong enough to continue individually in this highly competitive business, some of the smaller engine builders may well seek liaisons or even amalgamations with one or another of the giants in order to survive.



Rolls-Royce engines: left to right top: International Aero Engines V2500, Trent 700, RB211-535E4. Bottom: Tay, RB211-524G, Williams-Rolls FJ44, Trent 800, BMW-Rolls-Royce BR710 Andrew Siddons

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Michael Donne analyses prospects for the development of giant aircraft

Challenges look severe

With the volume of world air passenger traffic expected to double to more than 2bn international passengers a year by the early years of the next century and to continue growing thereafter, the question of how to cope looms ever larger.

Although the growth will be well spread over long, medium and short distances, a far greater proportion of it than in the past is expected to occur in the long-haul arena, largely as a result of increasing demand for travel to, from and within the rapidly developing Asia-Pacific region, supplemented by expanding demand in the trans-Atlantic arena.

Some part of that long-haul demand is expected to be met by an eventual second-generation supersonic airliner, but the size of that aircraft's market is as yet uncertain, and it seems clear that the majority of long-haul passenger flights will remain subsonic for the foreseeable future.

One solution to the problem of traffic growth would be to build ever-increasing numbers of existing jetliners or their derivatives – Boeing 747-400s (the biggest passenger airliner currently available), or Boeing 777s and Airbus A-330s and A-340s, and Douglas MD-11s. But that in turn would create greater pressures on the entire air transport infrastructure, especially creating congestion at airports and problems in air traffic control facilities to cope with crowded "corridors in the sky".

While there will inevitably be more subsonic aircraft entering the fleets over the years ahead, it is being recognised that an increase in individual aircraft size, at least for medium-to-long hauls, will become imperative. The timing of that development itself is uncertain, but is generally thought likely to be around the turn of the century or in the early 2000s.

For that reason, both Boeing Commercial Airplane Group of the US and the European Airbus Industrie consortium, are separately studying the possibilities of developing what are variously described as New Large Airplanes (NLAs) or Very Large Capacity Transports (VLCTs). At the same time, Boeing and the four individual partners in the Airbus group – British Aerospace, Aérospatiale of France, Daimler-Benz Aerospace of Germany and CASA of Spain .

Boeing's studies cover a possible 'stretched' version of its 400-plus seat 747-400 and an entirely new aircraft with bigger payloads

with Airbus itself in an advisory role – are looking at the possibilities of collaboration. A joint study is due to run until the middle of this year at which time it will be reviewed and either extended or discontinued.

Boeing's own studies cover both the possibility of developing a "stretched" version of its current 400-plus seat 747-400, to seat upwards of 550 passengers, and an entirely new aircraft with bigger payloads.

The dilemma here is that any "stretched" aircraft would require a new wing and involve heavy cost, but have a limited capacity for further long-term development, whereas any entirely new aircraft, while also expensive, would have much greater long-term growth potential. No decision has yet been reached, and the studies are continuing.

Airbus, while planning derivatives of its A-330/A-340 family to cope with rising passenger numbers, has also unveiled plans for a new larger venture, the A-3XX, which could be offered in various configurations to seat between 530 and 840 passengers, with a stretched version capable of up to 1,000 passengers, for example for a typical Japanese domestic operation.

The technological challenges involved in developing such VLCTs will be severe, especially in meeting possibly tougher environmental requirements in the years ahead. To save weight, reduce fuel burn and cut operating costs, new stronger, lighter materials will be needed, such as aluminium/glass-fibre laminated composites and aluminium-lithium alloys.

Much of the effort currently involved in defining the details of these projected aircraft is concentrated in such areas.

But just as significant are the financial and marketing challenges. The cost of developing just one VLCT type is between $10bn and $15bn. Such sums are beyond the purses of any single manufacturer, leading inevitably to collaborative ventures between companies to share the work, spread the costs and hopefully widen the ultimate market. Whether that in turn means two competitive types, one in Europe and one in the US, or one global venture embracing all the leading manufacturers, remains to be seen.

John Leahy, senior vice-president commercial for Airbus Industrie, told an International Air Transport Association Government/Industry High-Level Conference in Montreal in late April that Airbus could foresee a market for any VLCT amounting to about 800 aircraft over the next 20 years, from entry into service around 2003. By the standards of current aircraft production runs, that was not a large number, he said.

"The magnitude of the development cost and the resulting financial exposure during a long amortisation period has led some to believe there is no room for two competitors in this market, that only one worldwide consortium could undertake this venture with any chance of profitability.

"That is subject to some debate. The level of expected development cost certainly imposes consortium-type organisations but, because development costs increase more slowly with aircraft size than with productivity and price, it may be possible for two competitors to share the market."

But he added a note of caution: "It is not one, but two development programmes which would have to be covered by 800 sales. Whether prices would go up because of this or down because of competition I cannot tell yet. This is one element in the ongoing process to determine the best solution for all of us."

So far, only a few leading world airlines, including British Airways, have indicated interest in buying a fleet of NLAs/VLCTs. Mr Leahy, while expressing confidence in the long-term future for such aircraft, said that there were doubts about the prospects for an early launch of the A-3XX.

He said that before launching the A-330 and A-340 Airbus needed orders for a minimum of 40 aircraft from several carriers, and at least a similar number would be needed to launch the A-3XX.

"At the current phase of the airline business cycle, I doubt it would be possible to obtain the necessary number of launch orders – at least in today's economic climate," he said.

"You will have to convince yourselves that you need this airplane and enough of you will have to step forward to buy it. Then, and only then, will this project become a reality."

Airbus's planned A-3XX could seat between 530 and 840 passengers, with a stretched version capable of up to 1,000 passengers

Artist's impression of a second-generation supersonic airliner: the size of this aircraft's market is uncertain

Concorde and its successor

Much work ahead

On both sides of the Atlantic, an increasing volume of research is being undertaken on the feasibility of developing a second-generation supersonic airliner (SST-2, or High-Speed Commercial Transport, HSCT) to replace the ageing Concorde in the early years of the next century.

In the US, a major programme is being conducted by the aerospace industry (involving airframe builders Boeing and McDonnell Douglas and engine builders General Electric and Pratt & Whitney and other aerospace companies), with financial and technological support from the government-sponsored National Aeronautics and Space Administration (Nasa) under what is called the second phase of the High Speed Research programme (HSR-2).

This is developing further the necessary "key enabling technologies" originally defined in the first phase (HSR-1, from 1989 to 1994), including work on new materials and new power-plants, as well as studying the environmental problems confronting such a venture and its global market potential.

The US programme, which has not yet reached the stage of designing an aircraft in detail, centres around a 300-passenger aircraft with three classes (first, business and economy) capable of flying at around Mach 2.4 over distances up to 5,000 nautical miles (Concorde currently flies at about Mach 2.2, carrying 100 passengers in one fare class over distances of 3,000 nautical miles).

If all the technologies can be brought to fruition by the planned completion of HSR-2 in 2002, detailed design of a US SST-2/HSCT could begin then, with production starting around 2006 and deliveries to airlines around 2010. By then Concorde would have been in service for 34 years.

On this side of the Atlantic, a European Supersonic Research Programme (ESRP) has been established to bring together work already being done by British Aerospace through its subsidiary, British Aerospace Airbus, and by Aérospatiale of France and Deutsche Aerospace of Germany. This is focusing on an aircraft seating about 250 passengers in three fare classes and with a cruising speed of about Mach 2.

As with the US programme, this work is targeting the key technologies as well as serious environmental concerns over noise and pollutant emissions, and market potential. Here also, if the key technologies can be satisfactorily defined, a development programme could start around 2000, with a possible entry-into-service by around 2007, although financial constraints may delay such target dates.

Although there is still much work to do, the belief is growing that technologically a second-generation supersonic airliner will be feasible, but costly to develop (one estimate suggests about $15bn).

A big question remains is over the size of the potential market, with some industry analysts suggesting it could

The danger of competition is in splitting a market of limited potential so that neither venture made any money

amount to anywhere between 500 and 1,000 aircraft over a period of 25 years, although others put the figure much lower. So far, few airlines appear to show any enthusiasm for such a venture.

A joint International Working Group set up some time ago by Boeing with US and European companies has been looking closely into this aspect of any future SST-2/HSCT, although the group's work does not involve joint technology development.

From those studies, the belief also appears to be growing that eventually, international collaboration on such a venture will be necessary, involving US, European and other companies from countries such as Russia and Japan.

The sheer cost involved would appear to preclude the possibility of two competing types, one US and one European, even though each would have its own coterie of collaborators from other countries. The inherent danger of competition is in splitting a market of limited potential, so that neither venture made any money – something no manufacturer could afford to risk.

Louis Gallois, chairman of Aérospatiale, is convinced that the market could sustain only one type, but he also makes the point that the US, with government financial support, is further ahead in its research than Europe, and that in any collaboration the Europeans will have no real credibility unless their governments, either individually or jointly through the European Union, are also prepared to spend sums similar to those being spent by the US.

A brochure prepared by the ESRP in Europe states clearly that because of the magnitude of the investment involved, the market could only support one type of HSCT. It also makes the point that close co-operation between the certification authorities of the main manufacturing countries will be essential – in effect, that Europe would have to certificate any US aircraft and the US certificate any European one.

This effectively means there is no sense in building two competing types where one will suffice, especially in the light of the co-operation, albeit limited, already taking place.

It is also stressed by both the US and Europe that in addition to having a reasonable market, any such aircraft must also be environmentally acceptable from the start – and must make money.

Chris Longridge, vice-president for business strategy at Boeing, told the International Air Transport Association's High-Level Government/Airlines meeting in Montreal in late April that "the most important issue has to be the HSCT's economic viability. Any future supersonic airliner project must make money, both for the airline operators and for the manufacturers".

To be a financial success for the airlines, it would have to make a profit without having to rely on a high – if any – fare surcharge. For the manufacturers, it would have to be built in sufficient numbers to fully recoup both development and ongoing production costs, while earning a reasonable return on investment.

The continuing challenge is thus to bring all these diverse threads together – technological, economic, environmental – together with creating an adequate market and generating the political will to support such a venture financially. Much work has been done, but there is clearly much more still to do.

Michael Donne

Fokker expects to gain from its link to Daimler-Benz Aerospace, says **Ronald van de Krol**

Looking forward to the benefits

Fokker, the Dutch aeroplane maker, is hoping to reap wide-ranging benefits from the alliances which its majority shareholder, Daimler-Benz Aerospace (Dasa), has concluded with Chinese and Korean aviation companies over the past six months.

One likely advantage of the agreements, which are ultimately aimed at developing a new regional jet for the 21st century, is the availability of lower-priced parts produced in Asia, helping Fokker in its long-running campaign to get its costs down.

But other benefits are also expected to accrue in future from the alliances, which call for the setting up of a three-way joint venture between Dasa/Fokker, Aviation Industries of China and a number of Korean companies led by Samsung Aerospace Industries.

Ben van Schaik, chairman of Fokker's management board, said: "The partnership should also give us better access to Asian markets for aeroplane orders." North America and Europe currently lead the world in regional aircraft purchases, but Asia is expected to become a particularly important market for regional aircraft manufacturers such as Fokker in the 21st century.

Another advantage is the fact that Asian countries and companies are effectively within the dollar "zone", either because they use dollars in business or because their currencies are pegged to the dollar.

The dollar is a perennial and serious worry for Fokker, which is squeezed between having to sell its aeroplanes in dollars and incurring most of its costs in European currencies. One way to cope, Mr van Schaik says, is "to increase co-operation with dollar-related companies".

Fokker, which came under Dasa's control in 1993, is unperturbed by its parent company's forays into Asia. Nor does it worry about its future role if Dasa manages to conclude some sort of partnership deal with the new European regional aircraft alliance formed by British Aerospace and ATR, which is jointly owned by Aerospatiale of France and Alenia of Italy.

The continued losses have prompted far-reaching restructuring at Fokker

In the difficult negotiations that led up to Dasa's purchase of a controlling stake in Fokker from the Dutch government, it was agreed that the Dutch company would be the centre within Dasa for the design and development of regional jets in the 65 to 130-seat range.

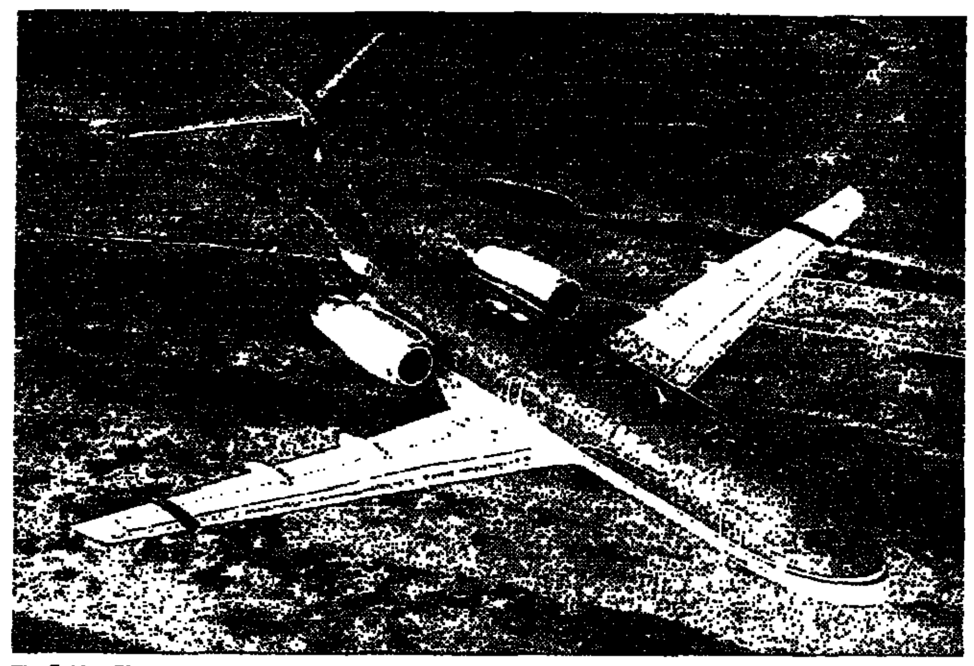
Mr van Schaik says that it is logical, given the overcrowded market and the sheer expense of developing new aeroplanes, that the German, British, French, Italian and Dutch manufacturers of regional aircraft come to an agreement. "We are, in a manner of speaking, condemned to each other. If we don't allow ourselves to be led by emotion, we should be able to come to a proper conclusion."

A frequently-cited stumbling block to a European regional aircraft alliance similar to Airbus is the existence of competing aeroplanes within the mooted grouping, particularly the Fokker 50, a turboprop, and its counterpart the ATR 42. Mr van Schaik, who will not be drawn on what concessions Fokker might make on the Fokker 50 or other issues, says "everything is open for discussion".

He says the flurry of alliances is expected to lead "to two groups of partners, a European group and an Asian group, which will co-operate intensively but retain their independence." The European and Asian groups would each have their own final assembly lines, but plane parts could be supplied from either side to the other.

The takeover by Dasa in 1993 has brought financial resuscitation for Fokker but no respite from the difficult conditions prevailing on the market for new aeroplanes. These difficulties are also faced by other manufacturers, but this is scant consolation for Fokker, which ran up combined losses of more than Fl900m ($560m) in 1993 and 1994. The continued losses have prompted far-reaching restructuring at Fokker, and the elimination of thousands of jobs so far in the 1990s.

Ben van Schaik, chairman of Fokker's management board



The Fokker 70: the latest addition to Fokker's Jetline family

In 1994 Dasa pumped Fl 600m of capital into Fokker, which also raised a further Fl 400m from a sale-and-lease-back deal of its technology with Rabobank, the Dutch co-operative bank. Mr van Schaik acknowledges that some sort of financial assistance may be needed again in 1995 or 1996, but he also believes that overall prospects are improving.

"In 1996 we expect to be out of the red, assuming a stable dollar of Fl 1.70 to Fl 1.75," he said. In early 1995 the dollar has been as low as Fl 1.53 and is currently around Fl 1.60.

Mr van Schaik added that the level of "serious interest" among potential aircraft purchasers is on the rise, holding out hopes of a recovery in the market.

At the end of April, Alitalia, the Italian carrier, agreed to lease 15 Fokker 70s, the latest addition to Fokker's Jetline "family". The aeroplanes, costing roughly $25m each, will be operated by Avianova, a Rome-based regional carrier which is majority owned by Alitalia.

It is a sign of the times that Alitalia wanted to lease the aeroplanes rather than buy them outright. This increased trend towards leasing is straining Fokker's balance sheet, and the company is working on setting up a separate leasing company that would take over these leasing contracts and operate at arm's length from Fokker itself. Talks on creating a leasing company for Fokker are continuing with Debis, the services arm of the Daimler-Benz group.

Originally, Fokker had hoped to have leasing company up and running by the end of the second quarter. But a difference of opinion with Debis on the value of Fokker's current portfolio of leasing contracts – the company puts this at about Fl 1bn, although Debis believes the true value is lower – has caused a delay.

Mr van Schaik says he expects the leasing company deal to be concluded in the second half of this year. "I wouldn't want to have to push back our target date again. I hate doing that," he says.

Although improving, global airline profit margins are still thin

Not yet out of the woods

In late April, the world's airlines celebrated their first collective profit in five years. A week later, they were warned they were slipping back to their old loss-making ways.

The world airlines' aggregate net profit of $1.8bn in 1994 was a welcome relief after several years of losses. But the International Air Transport Association, which announced the figures, pointed out that airline profit margins were still thin.

Pierre Jeanniot, Iata's director general, said the net profit figure, which is for international scheduled services, represented a mere 1.6 per cent of revenues. Mr Jeanniot said a healthy profit margin would be 7 per cent.

He said: "There is still a long way to go to secure decent future profitability."

The $1.8bn profit compared with a $4.1bn collective loss for Iata airlines in 1993. From 1990 to 1993, the airlines' aggregate loss was $15.6bn.

This year, Iata expects the airlines to do even better than in 1994, with collective net profit of $5.5bn. Even this, however, will be only 4.5 per cent of revenues – well below the 7 per cent Iata regards as healthy.

Airlines are pushing ahead with ticketless travel. They have also acted to cut travel agents' commissions

Mr Jeanniot said that this increase would be threatened if airlines increased the number of seats on sale too quickly. Iata's data for the first quarter of this year suggested this might already be happening.

The association said airline capacity, as measured by available seat kilometres, increased by 6 per cent in the first three months of this year. Passenger traffic rose by the same amount. During March, airline capacity grew 5 per cent. Passenger traffic in March rose by only 4 per cent.

This might not be the beginning of the unhealthy trend of which Mr Jeanniot warned. Easter, when many holidaymakers travel, did not fall in the first quarter this year, whereas it did last year. Passenger numbers worldwide might recover to outpace seat capacity over the rest of the year.

The Iata first quarter figures do compare unfavourably with the whole of 1994, when traffic rose more quickly than seat capacity. Nevertheless, some analysts are optimistic that airline companies might be able to sustain a relatively health profit performance.

One reason for optimism is bad news for the aircraft manufacturing industry and its employees. Unlike during previous economic recoveries, airlines are not rushing to order new aircraft.

This was one of the factors behind the announcement earlier this year by Boeing of the US, the world's biggest aircraft manufacturer, that it was making 12,000 employees redundant.

Frank Shrontz, Boeing chairman, said: "Since the beginning of the year, several customers came to us asking to postpone airplane deliveries because of the continued softness of the industry."

Jean Pierson, managing director, of Airbus, the European consortium which is the second biggest manufacturer, said he felt many airlines were holding on to their existing aircraft for longer periods, rather than buying new ones.

Brian Harris, an analyst at S.G. Warburg, says a second reason to believe airlines are in a position to improve profits, at least in the US, is a cut in their distribution costs. He says distribution expenses, such as travel agents' commissions, computer reservation systems fees and ticket processing costs, are airlines' second biggest cost component after wages.

Airlines are pushing ahead with ticketless travel. They have also acted to cut travel agents' commissions. The move was initiated last February by Delta Air Lines, which said it was capping the amount of money it paid travel agents who sold its tickets.

The airline said it would continue to pay a 10 per cent commission, but only up to a maximum of $25 for a domestic one-way ticket costing more than $250. There would be a cap of $50 for a round-trip domestic ticket costing more than $500, Delta said. In spite of the outcry from travel agents, the other large US carriers soon said they would do the same.

Whether the cap will benefit consumers is another matter: some travel agents say that, if the airlines continue to cap commissions, they will have no alternative but to begin charging air travellers who want to buy tickets.

Another development which the airlines hope will improve profitability is the forming of alliances and code-sharing agreements. Some of these alliances have taken the form of equity investments, such as British Airways' stakes in USAir and Qantas of Australia. Swissair has also acquired a 49.5 per cent stake in Sabena, the Belgian state-owned carrier.

Other alliances, such as that between Scandinavian Airlines System and Lufthansa of Germany, announced in May, do not entail any equity investment but do involve close co-operation and co-ordination of routes.

Other tie-ups between airlines have been simple code-sharing arrangements. This is when an airline does not fly on a particular route, but markets another carrier's flight as its own. A recent arrangement of this sort, announced earlier this year, was that between Delta and Virgin Atlantic, the UK airline owned by Richard Branson.

Under the agreement, Delta will sell its customers seats on Virgin's flights from the US to Heathrow airport. Delta has not been able to win the right to fly to Heathrow itself. Virgin can offer the passengers it flies to the US onward journeys elsewhere in America on Delta flights.

Some believe these arrangements are not in the interests of consumers. Robert Crandall, chairman of American Airlines, says: "Code-sharing is profoundly uncompetitive and, in the long term, will inevitably reduce the number of air carriers competing for your business. When airlines team up and code-share, they are able – by means of pretending to be a single carrier – to force other carriers out of a market."

As few other airlines appear to share Mr Crandall's views, however, he has decided that the US should conclude code-share deals too.

Code-sharing provides airlines with a low-cost way of expanding their route networks. It is too early to say whether all the agreements will result in increased profits for the airlines. BA, however, has little doubt. It expects the benefits from its tie-up with USAir to yield benefits of $100m this year.

Michael Skapinker

AEROSPACE 6

Tomorrow's air travellers? China plans to raise passengers numbers by an average of 12 per cent each year to 80m by 2000 Reuter

China's rapid growth is attracting the attention of foreign companies

Magnet for the multinationals

When Shandong Airlines, one of China's fast-developing new regional airlines, agreed last month to purchase three Boeing 737-300 passenger planes it marked yet another successful foray into the Chinese market for the US company.

Since China acquired 10 Boeing 707s in the early 1970s, the US aerospace giant has dominated the local market. Of China's 400 commercial aircraft in service today, 200 are Boeings.

But Boeing is not having it all its own way. Both Airbus Industrie, the European manufacturing consortium, and McDonnell Douglas are striving to increase their share in what is proving a highly competitive market.

Last November, McDonnell Douglas announced that it had reached agreement on the supply of 40 commercial jetliners to China at a cost of $1.6bn. Half of these aircraft would be produced under joint venture arrangements in Chinese factories.

Airbus Industrie has also been making a determined push. Jean Pierson, managing director of Airbus, has visited China several times in the past six months on high-profile selling missions.

Last November he said that Airbus' aim was to increase its share from about a third of new sales to half.

Enthusiasm for the China market among aircraft manufacturers is being driven by astounding growth projections; and this at a time when the international market for aircraft is relatively flat.

Chen Guangyi, minister of the Civil Aviation Administration of China (CAAC) – China's aviation industry watchdog – told a recent business conference in Beijing that by the year 2000 China would increase numbers of commercial aircraft by about 320 to 1,000 (this includes both passenger and cargo planes).

China plans to boost its cargo-carrying capacity in line with its fast-growing economy by adding 260 cargo carriers in the next five years. It is also embarking on the rapid development of its airport network to accommodate a broader range of aircraft, including Boeing 747s and 737s.

Of China's 132 airports, 13 are capable of handling 747s, 70 can cope with 737s and about 40 are either being upgraded, or there are plans to do so. China plans to develop 40 international airports by the year 2010.

No less impressive are China's operational targets: it aims to double transport turnover and rank in the top 10 by 2000 (in 1994 it ranked 11th with 5.84bn tons/km), increase passengers numbers by an average of 12 per cent each year to 80m and raise airport handling capacity to 150m annually.

These ambitious targets should not be out of reach, judging by growth-rates during the past 15 years since China began opening its economy to the outside world. From 1980 to 1994, aviation growth was 2.2 times that of the national economy; total transport turnover and passenger volume was 4.3 times and 6 times the average of international civil aviation; and China moved from 33rd to 8th internationally for passengers carried.

China's own growth projections are more or less in line with those outlined by international airline companies. Airbus, for example, expects China to purchase 620 aircraft in the next 15 years at a cost of about $30bn. Boeing is somewhat more ambitious, predicting sales of 800 aircraft at a cost of $40bn.

It is little wonder, therefore, that senior airline executives constantly beat a path to China's door. Among more frequent visitors is Ronald Woodard, president of Boeing Commercial Airplane Group who made no secret during a recent visit of the importance to his company of the China connection.

Mr Woodard reported that in the past four years Boeing had exported some $7bn worth of aeroplanes to China. Between 1993 and the end of 1995 Boeing will have delivered more than 100 commercial jets to China, about 14 per cent of total production.

The US company is also seeking to consolidate its presence on the ground in China as part of attempts to preserve its dominant position in the market. To this end, it is developing a services centre in Beijing and is also extending arrangements for the production of Boeing components at Chinese factories, including the aft section for the 737.

Boeing is also involved in discussions with China and other regional partners on the production of a 100-seat commuter aircraft. This would be manufactured in China as a means of transferring technology and aircraft production skills.

Mr Woodard, in his remarks to an international business symposium last month, also made it clear that his company was pinning great hopes on China providing a substantial market for the new generation Boeing 777s which are just coming into service. China Southern, the Guangzhou-based carrier, will become one of the world's first airlines to receive a 777 when it takes delivery in November.

Boeing executives believe the twin-engined wide-bodied 777 with capacity for 300-400 passengers is ideally-suited to China's domestic and international requirements. Representatives of Airbus Industrie and McDonnell Douglas have other ideas.

Tony Walker

Japanese operated but US built Boeing jumbo jets at Tokyo's Narita airport: Miti has failed to produce a world-beating Japanese aerospace business

Gerard Baker on the Japanese industry

High hopes fading

Japan's Ministry of International Trade and Industry (Miti) has become almost a synonym for success in the lexicon of industrial policy. Few of Japan's manufacturing giants do not owe their strength, in one way or another, to the influence of this mighty industrial machine. Even today as Miti's role changes from a dirigiste to a more facilitator, the part it has played in nurturing Japanese industry is not disputed.

Yet in one crucial area of policy Miti has signally failed to produce a world-beating Japanese business: aerospace. Despite repeated attempts in the past 50 years to recreate a worthy Japanese aerospace successor to the pre-war giants, the industry remains a minnow in the world of Japanese manufacturing.

It is not all Miti's fault, of course. Japan's militarist past and its pacifist present have not been conducive to the construction of an aerospace sector from its post-1945 ruins.

That constitutional legacy has left the principal Japanese aircraft demand to be met by its security ally, the US. Its military aircraft have all been either US imports or Japanese versions of US models produced under licence.

In addition, since the civil airline industry is so dependent on the military, that has left even Japan's enormous commercial airline demand – in Japan Airlines and All Nippon Airways it now has two of the world's largest fleets of planes – to be satisfied from overseas.

Several times in the past 30 years, Miti has tried to change that. First with the YS11 60-seat twin-engined turboprop in 1962 a disastrous project that sold just 182 aircraft in 10 years and collapsed in a pile of bad debts and worse recriminations.

Then came a short-take off and landing model called the Asuka, whose financial take off was very short and the landing even harder.

Neither aircraft was able to overcome customers' reluctance to buy something from the untried and untested Japanese aerospace companies – Mitsubishi, Kawasaki, and Fuji being the largest among them.

The failures convinced Miti that Japanese technological prowess would have to be harnessed to foreign commercial and manufacturing experience if the country was ever to build a genuine aerospace business.

Over the next few years a series of contracts were struck with Boeing that guaranteed a role, albeit a secondary one for the big Japanese manufacturers. The Japanese signed contracts to produce components amounting to 15 per cent of the Boeing 767 and 21 per cent of the 777.

But although these contracts represented significant financial bonuses for the aerospace companies, they attracted widespread criticism that Japan was becoming little more than a nuts and bolts subcontractor for the US aircraft industry.

Parts made for Boeings are mostly at the wrong end of the technological spectrum – wing tips and fuselage parts rather than avionics.

Critics of the government's approach said the contracts were doing nothing to create a strategically important business.

Miti is now trying again, launching what looks like being the ultimate challenge. It is called the YSX – a 100-seat passenger jet commercial aircraft – and it is scheduled to go into production next year. Although it is also a collaborative exercise with Boeing, it was intended principally as a Japanese plane, with Japanese technology and know-how, spiced with US marketing skill.

But, despite their involvement, the enthusiasm of the manufacturers for the project has seemed less marked than Miti's. In April the first real doubts began to appear. The big Japanese manufacturers announced that they had signed a deal with Boeing to produce parts for the new version of the company's long-running success, the 737. One of the new 737 versions will compete directly with the planned YSX, and the Japanese manufacturers' willingness to contribute to it seems to suggest that YSX itself may never get off the drawing board.

If that is the case then the project may quash Japan's hopes of an independent aerospace industry.

Miti had invested such hopes in the YSX because it offered the opportunity to wean the industry off its reliance on defence projects in the rapidly demilitarising post-Cold War world.

Here, too, the leading companies have been little more than US-directed subcontractors. Even a much vaunted new project, the FSX, whose prototype was unveiled earlier this year, is simply another aircraft modelled on a US product – the F-16 fighter. Although it is scheduled to begin testing later this year, there is little prospect of it developing a substantial order book from the shrinking Japanese military and it, too, may prove short-lived.

The next few months will be critical for both projects. Should the YSX be abandoned and the FSX become little more than a high-tech museum piece, the last hopes for a self-sustaining Japanese aerospace business may well disappear with them.

Germany

Rise of the D-mark still causing pain

A handful of German ministers, the premiers of several Länder and representatives of the aerospace industry recently gathered for the latest – and biggest ever – round in their battle to decide the future of the German aerospace industry.

Government and industry representatives who filed into the economics ministry on a hillside above Bonn were not short of arguments with which they hoped to fight their own corner.

Daimler-Benz Aerospace (Dasa), the subsidiary of German's largest company which represents 80 per cent of the country's aerospace industry, led the industrial lobby which is demanding more government support in the face of fierce international competition, especially from the US.

The government, on the other hand, came without any extra money but with equally well-rehearsed arguments.

In effect it told German industry it should no longer be looking to Bonn for help but should instead work more closely with Brussels to co-ordinate a European aerospace strategy and, most importantly, that aerospace companies in Germany, France and Britain have to make tough decisions about who is to do what in future.

The aerospace conference, including for the first time the state premiers of six German Länder or states where the aerospace industry is sited, comes as German aerospace companies are again howling with pain as the dollar, the currency in which most aerospace business is done, continues to slide against the D-Mark.

Norbert Lammert, the state secretary in the economics ministry who is also the government's co-ordinator for the aerospace industry, says he is aware of the problems caused by currency turbulence.

But he says the problem is not new and he refuses to find extra public money to help industry tackle it, especially as the two sides last year both contributed to a DM1.2bn programme designed to support the German aerospace industry between 1995-1998.

"We cannot begin a roll-back of what has been agreed with every single old or new problem," Mr Lammert said recently.

Industry will nonetheless do all it can to squeeze more money out of the government and hopes to enlist the support of the Länder premiers who are concerned to maintain the jobs in their constituencies.

Jürgen Schrempp, Dasa's chief executive since 1989 until he took over at the helm of Daimler-Benz, recently warned that up to 20,000 German aerospace jobs might be lost if the dollar continued to be worth less than DM1.40, the level to which it recently tumbled.

Mr Lammert insists that the government is doing what it can. The industry is the only one, he says, for which Bonn has for years had a a co-ordinator whose task it is to ensure that aerospace concerns are familiar to the country's top politicians.

The DM1.2bn programme is designed to safeguard areas where German industry already has considerable expertise: navigational systems, engines and helicopters. About DM120m is reserved to fund innovative projects proposed by some of the smaller aerospace companies.

German industry acknowledges that if Europe is to have any chance against the US it must create a European procurement policy

Mr Lammert wants to persuade German industry that more than ever, its future depends on European co-operation.

"The technological and commercial conditions in aerospace industries have reached a point where national projects – in so far as they can be financed at all – are increasingly irrelevant," he said. "The aerospace industry will be European or not at all."

While Dasa and others have often blamed the government for not doing more to consolidate the European aerospace industry, Mr Lammert insists that industry itself has done too little to restructure the European industry so that it can compete with the US, Russia and a handful of Asian countries with aerospace ambitions.

Mr Lammert says it makes no sense for both Dasa and ATR, the Franco-Italian consortium, to be working on the development of a new 100-seater jet. Such efforts should be united, he says, and should perhaps be extended to include the Swedes or the Koreans.

More must be done to ensure that existing ventures such as Airbus are turned into public companies so that costs can be better controlled, Mr Lammert says, and Franco-German plans to develop a new generation of reconnaissance satellites must be given further political support.

These and other projects were discussed at a January meeting of the German, French and British trade ministers to formulate aerospace policy which, Mr Lammert said, was long overdue. He hopes there will be another meeting before the end of the year which will give further impetus to European co-operation.

German industry, on the other hand, acknowledges that if Europe is to have any chance against the US it must create a European procurement policy through which it will be able to award the lucrative contracts which have so far given US companies the decisive advantage over their European competitors.

The Germans and the French are finalising plans for a joint procurement agency which would begin by awarding contracts for conventional weaponry such as armoured personnel carriers and hope that other projects will follow.

However, according to Wolfgang Piller, Dasa's finance director and the chairman of the BDLI aerospace association, the state of the German industry is dire because several procurement budgets have been cut by about 50 per cent since 1990 and European solutions have become more difficult because of a similar shortage of funds.

The budget for the European Space Agency (ESA) between 1992-2000, for instance, was set at DM19.5bn in 1987. It has since been whittled down to DM9.9bn and may still be reduced even further, Mr Piller says.

A series of European projects are under way including Eurofighter, the four nation £32bn effort to develop the next generation of fighter aircraft. But other projects which Germany regards as critical for Europe's chances to compete with the US are having trouble getting started.

That includes the so-called Future Large Aircraft, a Franco-German initiative to which Britain, to the horror of the German aerospace industry, has not yet fully committed itself.

"If Britain does not join the FLA programme," said one aerospace executive, "then I am in favour of blowing up the Channel tunnel and letting it drift off into the Atlantic."

Michael Lindemann

The decline of the dollar is hurting French aerospace companies, says **David Buchan**

Industry continues to downsize

Muttering bitterly about the dollar's decline and unfair US competition in world markets, the captains of French aerospace continue to retrench. But the retreat may only be tactical. A leaner, meaner French industry is hoping to counter-attack in the years to come.

This year, however, will still see a fall in French aerospace sales. The Groupement des Industries Françaises Aeronautiques et Spatiales (Gifas) predicts, on the basis of orders over the past three years, that its member companies' turnover will decline by 2 per cent to FFr103bn ($20.27). This follows falls in total turnover of 3.5 and 8.9 per cent in 1994 and 1993, respectively.

As a result of the well-publicised difficulties of French airlines and the country's equally intractable budget deficit, French aerospace manufacturers had to look more to foreign customers who took 55 per cent of their sales last year. France's aerospace industry, the world's second largest with 9 per cent of the global market and 35 per cent of Europe's production, saw export deliveries rise a modest 1.6 per cent and export orders increase by 7.1 per cent.

But French aerospace exporters are deeply worried and angry, about the effect of the dollar's decline. "We are dead if the dollar were to stay at below FFr5," says Louis Gallois, president of Aérospatiale. Aérospatiale's costs, he points out, are 75 per cent in francs or other relatively hard currencies, but its sales are 75 per cent in dollars.

Alain Gomez, president of Thomson-CSF, the defence electronics group, likens the US defence industry's export offensive in the 1990s to that waged by the Japanese consumer electronics industry in the 1980s. The basis of both is a competitive advantage that rests on a closed home market and an undervalued currency, Mr Gomez claims.

Serge Dassault, president of Gifas and of the company that bears his name, complains that "the Americans have no interest in propping up the dollar because it benefits their exports". He would like to see France adopt the sort of exchange stabilisation scheme which Germany operated for Deutsche Airbus and which so irritated the US. His idea is that the French government would fix a rate of, say, FFr6 to the dollar. If French aerospace exporters received more than this rate on their dollar sales, they would pay into a fund and draw out of that fund if they received less than that rate.

What he and other French industrialists also point to is the way US administrations have stepped up their lobbying on behalf of American aerospace companies. Mr Dassault expresses the hope that President Jacques Chirac will go into bat for French arms sales in the way that President Clinton has for similar US sales; given that Mr Chirac's father worked for Dassault, there is every chance he will.

Louis Gallois, president of Aérospatiale

In the meantime, however, French aerospace is having to downsize. The industry shed 6,000 jobs in 1993 and another 5,000 last year to reach its current size of 100,500, with a considerable amount of short-time working among those left in formal employment.

The worst hit company has probably been Snecma, the aero-engine maker. Its turnover has shrunk by 30 per cent over the past three years, because, unlike the makers of aircraft, missiles and avionic equipment, Snecma has seen both its export and home market decline. It is shedding a further 500 jobs this year, but its new president, Bernard Dufour, reckons that in terms of sales-per-worker his 12,000 workforce is still about a quarter too large.

At the same time, Snecma has a heavy development programme. It has just been given the go-head, but not yet the money, from the French government to start work on the CFM XX engine which, with some 40-50,000lbs thrust, would complement the range of its successful, smaller CFM 56 engine and the bigger GE 90 engine built in conjunction with General Electric of the US. But after an accumulated FFr3.4bn loss over the past three years, and the prospect of being about FFr1bn in the red again this year, Snecma badly needs more money, perhaps as much as FFr6bn, from its state shareholder.

The needs of other state-owned aerospace and defence companies are not so dire. But Mr Gallois says Aérospatiale needs another FFr10bn to bring its funds up to a third of its FFr50bn a year turnover, if it is safely join other European companies in expanding the Airbus programme.

Thomson-CSF's only real problem is its loss-making share in Crédit Lyonnais, but Thomson SA, the state holding company which controls it, also needs a cash injection from the government.

But the French state has no spare cash. It has already been pressing its military suppliers to cut their prices by 2 per cent price and refusing to place multi-year orders in a way that has infuriated Mr Dassault. He complains that because the government is only ordering about 5-6 Rafale jets from Dassault each year, neither his company nor its subcontractors can properly plan ahead.

In this context, much of the French aerospace industry is seeking strength in alliance with other European companies. This is not proving easy. Aérospatiale has virtually negotiated its missiles and satellites joint ventures with Daimler-Benz Aerospace (Dasa), but is waiting for German government funding for new satellite programmes. Similarly, the Matra defence division of the Lagardère group has more or less negotiated its missile merger with British Aerospace, but the deal appears to hang on the UK government giving the couple a dowry in the form of a new missile programme.

Only Mr Dassault stands proudly resistant to this urge to merge. "A small company can be more efficient than a large one", he says, adding that he has no plans to diversify or ally his group with another. If the state wants him to co-operate more with Aérospatiale, Mr Dassault says, it will have to fork out the joint research funding it has long promised the two companies.

Russia

Signs of change

Russia has a long and proud tradition in the aerospace industry but the economic slump which has plagued the country for the past five years has at times seemingly threatened its very existence.

An inter-enterprise debt crisis, which has delayed bill payments throughout the economy, has starved many manufacturers of working capital while orders for new aircraft have plummeted.

The privatisation of Russia's biggest manufacturers has also cut them off from state funds without giving them access to new sources of capital. Rampant inflation has deterred companies from making the long-term investments essential for the survival of a competitive industry.

But as the economy stabilises and Russia's domestic carriers gather strength there are some signs that the aerospace industry is beginning to adapt its production-led mentality towards one of satisfying potential customers' needs. Spurred on by co-operative ventures with foreign firms, Russian manufacturers are slowly starting to shift the emphasis from the giant, inefficient aircraft it produced in such quantity in the Soviet era towards more consumer-friendly aeroplanes demanded by the new generation of transport companies.

The trend will be visible at the Paris Air Show this week where Russian manufacturers will concentrate on selling smaller aircraft, exhibiting 20 helicopters and aeroplanes. "The time when we demonstrated the achievements of the former Soviet Union is over. Aircraft makers now have a interest in producing small commercial aircraft which can be sold quickly," Andrei Systsov, the deputy director of Russia's aircraft export company, said recently.

The Mikoyan design enterprise, which has built generations of high-specification fighters, will show the MiG-AT advanced trainer developed in co-operation with Sextant Avionique and Turbomeca of France. Great hopes are held out for this new aircraft, which has still to complete all its flight tests, and Mikoyan aims to sell 3,000 of these trainers over the next 15 years.

Another trainer, the Yak-130, which simulates the performance of Russia's advanced fighters will also be on show. The Yakovlev enterprise which makes the trainer says it has already received orders for 200 aeroplanes from the Russian air force and would start production in 1997.

The industry is beginning to alter its manufacturing methods

Russian manufacturers will also try to reinforce their reputation as a leading force in the military aircraft market. Foreign air forces are expected to show considerable interest in two aircraft which will be displayed at Paris for the first time – the MiG-21-93, which boasts a sophisticated computerised weapons system, and the Tupolev Tu-160 bomber which is capable of launching small satellites.

After decades of wasteful central planning, the Russian government is perhaps understandably reluctant to heed the aerospace industry's pleas and implement a new industrial policy. Nevertheless, there are at least some tentative signs that the industry is beginning to alter its manufacturing methods and make the long painful march towards the market economy.

The most startling transformation has perhaps been wrought at Aviacor, the Samara-based manufacturer of the Tupolev-154 aircraft, which has implemented a drastic restructuring programme after bankruptcy procedures were started last year. The workforce has been cut from 25,000 to 9,000, the company's social infrastructure – including schools and holiday homes – has been transferred to the local authorities, and the production processes are beginning to be modernised.

Such manufacturers may yet be able to satisfy the potentially huge demand in Russia's airline market where it has been estimated that only 30 per cent of the aircraft operating in Russia today will still be operational by the end of the century. The comparatively low-cost structure of the Russian industry may also make its aircraft particularly competitive in promising emerging markets, such as China and India.

Aeroflot-Russian International Airlines, which carried 8.1m people last year, says that passenger demand has already begun to stabilise and it is beginning to plan ahead with more confidence. This year it intends to buy two Il-96-300 aircraft and refit 14 Il-86 aeroplanes with western engines at a cost of $288m. But it is also installing Russian-made engines on its Il-76 cargo planes and will order 20 Il-96Ms and Il-96T aircraft.

But the new generation of Russian airliners has encountered some teething problems. Last November, a Tu-204 aircraft on a demonstration flight for industry journalists, was forced to make an emergency landing after one of its two Russian-made engines failed. Both the Tu-204 and the Il-96-300, on which the future of the Russian aviation industry largely hangs, were to have used the flawed PS-90A engines.

John Thornhill

The UK is taking steps to halt falling market share, says **Michael Donne**

Boosting competitiveness

Although aerospace is one of the UK's most successful industries, with a positive trade balance for many years, there is concern that while it continues to achieve sales of about £11bn a year, its position in an expanding global aerospace market is declining.

The US remains the western world leader, but the UK, compared with a slight lead in the early 1980s is now smaller than France, with Germany catching up relentlessly, and new competitors, especially in Asia-Pacific, also taking a share of the market.

To meet this challenge, the industry over recent months has been seeking not only to improve its own performance but also to enhance UK government awareness of the industry's extensive role in the nation's economic life and to improve government procurement policies.

The industry believes that the UK lacks a coherent national strategy for aerospace, in which the government must have a leading role as the industry's biggest single customer.

Internally, the industry, through its trade association, the Society of British Aerospace Companies, has established what it calls "The Competitiveness Challenge".

This a strategy initiative

A strategy initiative has been designed to make the industry aware of the challenges it faces in increasingly competitive markets

that is designed to make the industry aware of the challenges it faces in rapidly expanding and increasingly competitive world markets, and to help it gear itself up to meeting them, with the overall objective of halting the decline in market share, and then lifting sales and world market share once again.

This internal strategy is being conducted by means of seminars, publications, study teams and missions.

Critical self-assessment is being encouraged among companies as well as a range of other activities, all aimed at helping recognise deficiencies in performance and rectify these.

Already, a degree of success has been achieved, but much more has to be done.

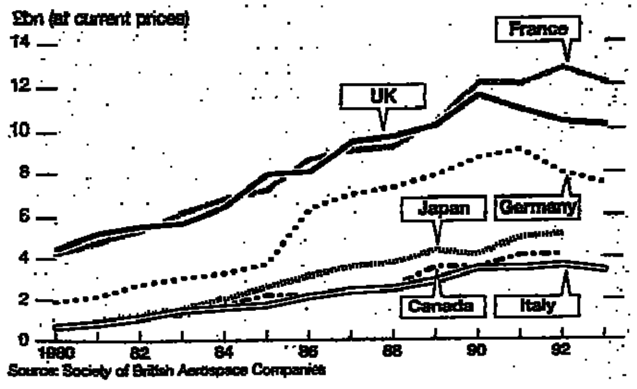
At the same time, the SBAC is working to ensure that next year's Farnborough '96 International Air Show (September 2-8) will be the biggest and best aerospace exhibition yet held (a tough self-assignment, given this year's biggest-ever Paris International Air Show).

Farnborough '96 will have more resources devoted to administration and organisation, more exhibitors, a high level UK government presence, expanded civil and military missions from overseas, increased sponsorship and improved seminar programmes.

All these activities are being developed in tandem with the SBAC's direct efforts to get closer to the government and push for improvements in the overall defence procurement process, particularly a broadening of the criteria used in purchasing decisions which the industry believes are too narrowly focused on the immediate value-for-money syndrome.

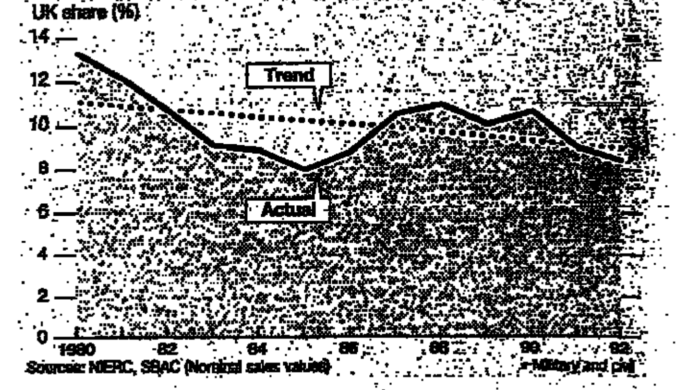
Top-level officials of the Society, including Sir Barry Duxbury, its director, as well as from the leading companies, including British Aerospace, Rolls-Royce and major suppliers, have held dialogues with ministers, including those from the ministry of defence and department of trade and industry, and also the Treasury (the Chancellor of the Exchequer met industry leaders and the SBAC at what was described as "a very useful breakfast meeting" earlier this spring).

UK aerospace sales versus major competitors



Source: Society of British Aerospace Companies

UK share of total OECD aerospace production*



Source: NIERC, SBAC (Nominal sales values) *Military and civil

The SBAC has also made submissions to the Commons combined defence and trade and industry committees.

Sir Barry says: "The mere fact that these two committees were combined indicates a notable change in government attitude and illustrates a recognition of the key argument that we have been putting to government for some time now, namely that defence purchasing decisions are not made in a vacuum and short-term value for money is not the only factor to be considered.

"If we do not maintain and value our own industry, we will lose the power to compete internationally in the future."

In a meeting earlier this spring with MoD and DTI ministers, the SBAC pressed for a new approach to defence equipment procurement decisions. It called for a joint MoD/DTI/defence industry study in order to establish new and wider criteria for determining value for money in defence procurement.

The SBAC points out that the MoD's policy has changed markedly over the past 10 years, with industry responding to the greater emphasis placed on competition, fixed price contracting, and market testing.

These policies have improved competitiveness throughout the industry and the public supply chain, leaving the UK with a leaner, more efficient sector capable of providing quality products and services at reduced costs.

But it adds that while in the short term the MoD has benefitted from the emphasis on internal UK competition, when considered alongside growing international competition "clear danger signals emerge suggesting the need to review the value-for-money criteria applied to defence procurement".

He continues: "Considerable attention needs to be given to the economic and strategic impact which future procurement decisions – singly and collectively – will have. This must take into account the long-term effects on technology and the production base, our capability to compete in world markets, and employment."

Sir Barry points out: "With an annual equipment budget close to £10bn, if is imperative that the government weighs the short term budgetary issues against longer-term value for money for the nation, and we shall continue pressing them on this."

US airlines

Mixed prospects

At last, things seem to be looking up for US airlines. After losing $13bn in the five years to 1994 – more than all the profits they had previously made since the invention of powered flight – they look as though they are going to make a profit this year. Airline stocks have risen sharply amid an upsurge of optimism about the industry's outlook.

But is the optimism well-founded? There is room for doubt. As with airlines elsewhere in the world, US carriers have benefited from an upsurge in passenger numbers prompted by economic growth. Yet even amid this economic buoyancy, the Air Transport Association, a US body representing the airlines, believes the industry will make net profits of only $500m this year, a long way short of the $1.7bn it made at its peak in 1988.

Looking on the bright side, the increase in passenger traffic seems to be continuing: the number of passenger miles flown rose by 6.6 cent in the first quarter. But the airlines' fundamental problem of overcapacity has not gone away.

There are still far too many aircraft chasing too few passengers, resulting in repeated outbreaks of fare sales and a consequent reduction in yields. And small, low-cost carriers continue to plague their bigger brethren by proliferating on short-haul routes with no-frills services at ultra-low fares.

With these downward influences on fares continuing to offset the increase in passenger numbers, the big airlines have concluded that their best hope of returning to an acceptable level of profitability is to take an axe to costs.

Most have have launched drastic cost-cutting programmes of one sort or another.

The trouble is, most of the big airlines seem to be running just to stand still

United Airlines, the world's biggest carrier, has given its employees a 55 per cent controlling stake in the company in return for pay cuts and other concessions.

Delta Air Lines is part-way through a plan to slash 15,000 jobs from its workforce and save $2bn a year in costs by 1997. USAir, the airline in which British Airways has a minority stake, is close to agreeing a plan with its labour unions under which employees will get a 20 per cent stake in the company in return for pay cuts.

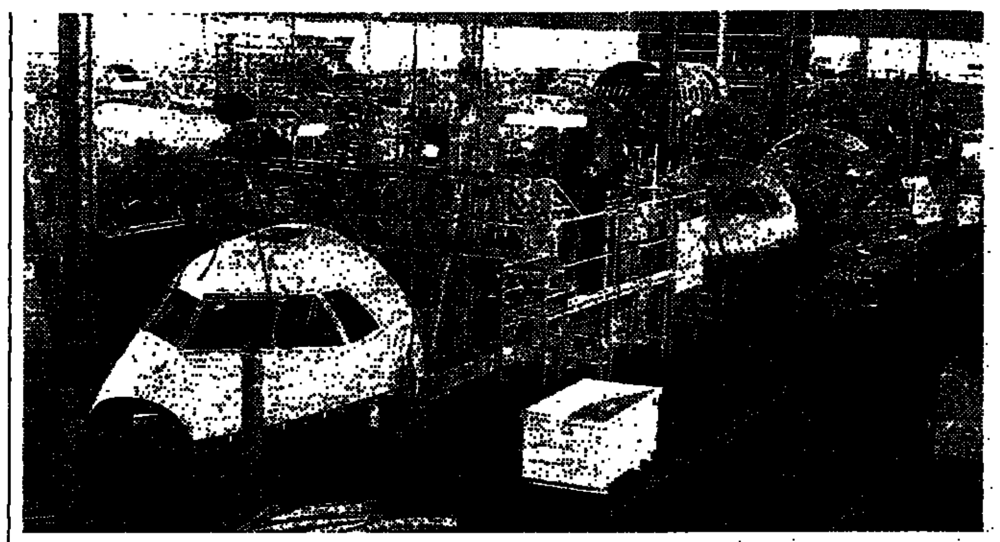
The trouble is, most of the big airlines seem to be running just to stand still. In spite of their cost-cutting efforts and a big fall in fuel prices, their average operating cost per available seat mile barely changed last year.

One reason is that many workers are still getting pay rises under existing employment contracts; another is that the airlines are trying to shrink to a profitable core, meaning that fixed costs are spread over a smaller base.

Some analysts nevertheless believe there are good times ahead. They say the cost-cutting has still a long way to go; that the big carriers recently saved money by putting a cap on the commissions they paid to travel agents; and that the rate of growth of the low-cost carriers will slow as they run out of choice short-haul routes to attack.

Yet it is hard to ignore the negative influences on the outlook. Overcapacity is not about to disappear; low-cost carriers are driving their own costs down even further; and fuel prices are on the way up. And if that were not enough, the industry faces the expiry of a fuel tax exemption is September which will cost it an extra $527m a year – more than the profits it had hoped to make in the whole of 1995.

Richard Tomkins



ATR fuselage assembly line at the Alenia plant in Naples

Italy

Privatisation remains some way off

Italian aerospace seems to be travelling more in hope than with real expectations of arrival. In any case, the destination is unclear. The uncertainty afflicting the industry since the end of the 1980s continues undiminished.

In its annual report for 1994, issued last month, Finmeccanica paints a bleak picture of depressed and stagnant activity. A sub-holding of the IRI state holding corporation, Finmeccanica controls most of Italy's aerospace and defence industry. Its forecasts of revival now look towards next year rather than this.

Finmeccanica owns Agusta, the helicopter-maker, Officine Galileo, the avionics company, and Alfa Romeo Avio, the aero engine company, but its principal aerospace operation is Alenia. A division of Finmeccanica itself, rather than a subsidiary company, Alenia's activities include civil and military aircraft and structural components, avionics, missiles and radar systems.

Reorganisation and cuts have been the watchwords as management has tried to cope with the tough conditions that have been buffeting the company. Earlier this year Alenia announced plans eliminating 800 jobs from the payroll of its Turin factories and 300 from operations in southern Italy.

When Alenia was formed at the end of 1990 from a merger of Aeritalia, mainly aero business, and Selenia, whose activities centred on electronics and defence, the combined payroll was just over 30,000. Alenia's effective workforce was 23,000 last year and, if matters do not improve soon, it is hard to believe that the latest cuts will be sufficient.

The job of keeping Alenia airborne passed in February to Giorgio Zappa, the company's president, who has spent 24 years with IRI companies, in the troubled Finsider/ILVA steel group and in Finmeccanica companies. Mr Zappa says that his strategy aims at rationalising production. "This means concentrating operations: military work in Turin, panel production at Nola near Naples and composites in Foggia. Rationalisation allows smaller payrolls and cost reductions."

"Cutting jobs is only part of the solution to today's problems, however. Strategy also requires a focus on selected businesses where Alenia has acquired experience and competitiveness," Mr Zappa says.

Alenia's partnership with France's Aérospatiale in the ATR regional transport aircraft continues to be the centre of the Italian company's efforts in civil aircraft work, although this programme felt the effects of last year's ATR crash in the US. "There was a pause, but business is now picking up again," says Mr Zappa.

He is confident that ATR's agreement with British Aerospace, which has already progressed beyond a purely commercial arrangement to product support and integration of training, will yield significant results.

"The agreement opens wide possibilities in foreign markets. It is a testimony to European co-operation and commitment," Mr Zappa says.

Europe's aerospace companies can no longer undertake major projects independently, he says, adding that he expects the ATR/BAe consortium will welcome other members when it starts to evaluate investment in a new airliner.

Giorgio Zappa, president of Alenia: 'business is picking up again'

Mr Zappa says he doubts that cross-border concentration and mergers of Europe's aerospace companies will be achieved for many years. So co-operation is vital. This is particularly true for defence projects, not least in a period of declining defence spending.

"Italian expenditure on defence equipment fell by 47 per cent in real terms between 1989 and 1994," he says. "This creates enormous difficulties in keeping at the technological leading edge. Yet we must if we wish to continue in business."

Alenia' hopes are pinned on three major defence projects: the EFA (Eurofighter), the FLA transport and the Horizon naval frigate.

EFA is furthest along the development path. Indeed Alenia's prototype, the third and the first fitted with production engines, was expected to make its first flight from Turin in the first half of June.

There are, however, large obstacles to overcome before EFA production begins. Costs per aircraft and order numbers from participating countries need to be settled. Mr Zappa says that Italy is committed to buying 130, and he hopes that this will be confirmed.

Numbers are considerably lower for the FLA. Two years ago Italy said that it would purchase 60, although Mr Zappa says that orders will not be this high.

Alenia considers that its experience in designing and constructing the G222 transport justifies the company taking a leading role in the FLA, including siting the final assembly line.

Mr Zappa recognises that his company's contributions to the defence projects in terms of work sharing ought to depend on Italian orders.

Italy's record is not good, however, and the enormous problems in public sector finances means that it is unlikely to improve in the near future. For example, Italy has yet to put money where its mouth has been for the EH 101 helicopter, in which Agusta's partner is the UK's Westland. The EH 101 production is now going ahead thanks to British orders.

Alenia's partners may think that there is an element of sharp practice in the projected Italian orders for 130 EFAs, 60 FLAs and six Horizon frigates. Few believe that Italy intends or has the funds to turn words into deeds.

Mr Zappa's claim that work already done on the EMPAR radar system should be recognised when Horizon is shared raises hackles in Britain, which will order 12 frigates. Italian talk of taking six frigates lacks credibility.

Alenia urgently needs work, but it depends on the Italian government. In the meantime the holding company, IRI, wants to see drastic improvement in results.

Finmeccanica's accounts reveal that its Agusta subsidiary lost L173bn ($105m) last year. As a Finmeccanica division, Alenia's results are hidden in the sub-holding's accounts. It probably recorded about L250bn of losses, although Mr Zappa says that break-even was achieved at operating level before depreciation and financial charges.

IRI is looking carefully at strategy. It wants to privatise, but market-listed Finmeccanica is being held back by its aerospace and defence activities.

One option is to spin these off into a separate company. If this is the choice, Alenia and its sister companies would be a lame duck with slender hopes of taking wing. Five years ago, before absorption by Finmeccanica, Alenia's shares enjoyed stock market listing. Privatisation of Italian aerospace now seems far beyond the horizon.

David Lane

Heathrow's Terminal 4: expansion centres on a proposed Terminal 5 which would boost passenger capacity to more than 80m a year from 52m at present Tony Andrews

Ronald van de Krol looks at airport development

Schiphol holds the ace

Amsterdam's Schiphol Airport will be the envy of many of its big European competitors when it wins parliamentary approval later this summer to build a fifth runway, a key element in its ambitious plans to double in size by the early years of the 21st century.

The additional runway, expected to be ready for use in 2003, makes Schiphol one of the few airports in Europe, along with Charles de Gaulle in Paris, that can expand its runway system with relative ease.

Despite its close proximity to Amsterdam, the Dutch capital, and despite years of protest by local residents and environmental campaigners, Schiphol still has room to expand into farmland located next to the airport.

Although none of Schiphol's main competitors – London's Heathrow, Charles de Gaulle and Frankfurt Airport – has plans at the moment for a similar runway expansion, all are busily working on capturing as much of the growing European market, especially the passenger-transfer market, as they can.

Of the four airports, Amsterdam, Paris and Frankfurt have also invested heavily in the railway stations located beneath their air terminals.

In London, future expansion at Heathrow centres on a proposed Terminal 5 which, at the cost of £900m, would boost passenger capacity to more than 80m a year from 52m at present. The new terminal, if built, would be three times larger than Heathrow's most modern building, Terminal 4.

The construction of terminal buildings is less sensitive politically than building new runways

New terminals also feature prominently in Charles de Gaulle's and Frankfurt's expansion programmes: Charles de Gaulle's expansion of its Terminal 2 is due to be completed in 1997, while Frankfurt opened a second terminal at a cost of DM1.6bn in 1994.

Schiphol, too, opened a new west wing of its single terminal building in May 1993, increasing capacity to 27m passengers from 18m and marking an interim step on the way to a further expansion to between 35m and 40m passengers in the next decade.

The construction of terminal buildings is less sensitive politically than the building of new runways. It is hardly surprising, therefore, that Amsterdam is the only leading European airport to commit itself openly to a fifth runway.

The British government has already ruled out the construction of a third runway at Heathrow, partly because this would involve the demolition of more than 3,000 homes. But some local opponents of plans for Terminal 5 see the new building as the thin end of the wedge that will inevitably lead to calls for a new runway in the next century.

Fears of even more runways at Schiphol have prompted the Dutch airport's management to rule out a sixth runway. Hans Smits, its president, said in late April that a good balance had been struck between economic and environmental concerns in the decision to build the fifth runway.

"We at the airport will therefore not put forward proposals that would upset this balance," he said.

Of the four big European airports, Amsterdam's Schiphol is in a special position because its role in European aviation – and the continent's transferring passenger market – is out of all proportion to the Netherlands' size.

While Britain, Germany and France have large domestic "hinterlands" that explain the presence of big airports on their soil, the Netherlands, with its limited geographic expanse and its population of just 15m, has consciously set out to become a leading aviation hub.

Schiphol has been designated by the government as the second "motor" to the national economy, complementing the country's possession of Rotterdam, the world's biggest shipping port.

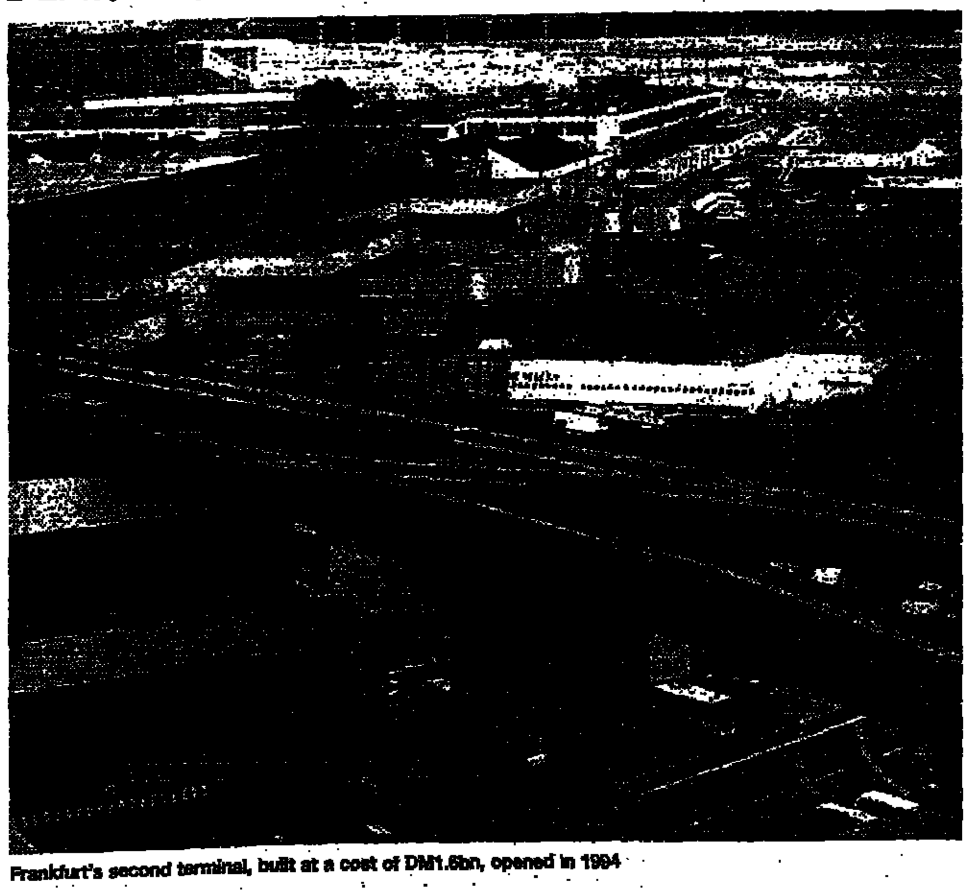
Already, some 45 per cent of Schiphol's passengers never leave the terminal building but move on to a connecting flight outside the Netherlands. This high dependence on transfer passengers explains why Schiphol has traditionally opted to expand its existing terminal building rather than to build new terminals, as Heathrow has done.

Schiphol has also skilfully promoted itself in Britain as a regional "UK" airport, persuading travellers from cities such as Manchester, Edinburgh and Newcastle that they could just as easily take a regional flight to Amsterdam and make an onward connection than travel to London and use Heathrow or the UK capital's other two airports, Gatwick and Stanstead.

The Dutch airport's construction of a fifth runway, and its investment in further capacity increases in its terminal building, are designed to ensure that it can continue to handle aeroplanes efficiently at the peak transfer hours.

Aircraft operated by KLM Royal Dutch Airlines, the airport's main customer, are scheduled to arrive in three main "waves" during the day, so that passengers can switch from one aeroplane to the next for onward journeys.

Indeed, it is this lure of Amsterdam that BAA, the owner of Heathrow, uses as an argument in favour of building a fifth terminal. Only by boosting Heathrow's capacity can the UK airport stave off competition from the likes of Schiphol and Charles de Gaulle, BAA believes.



Frankfurt's second terminal, built at a cost of DM1.6bn, opened in 1994

Developments in space technology

Making a connection

Although the history of space technology has been full of grand gestures by governments, the main fuel for its development has been one simple factor – people's desire to talk to each other.

While the plans by the US to launch a sophisticated manned space station have slipped so far into the distance to be virtually out of sight, revenues in the space hardware industry have been supported almost entirely by the manufacture and launch of communications satellites.

In the US, the biggest market for space hardware, funding cuts for space technology by the National Aeronautics and Space Administration and the Department of Defence have led to a "general tone of bleakness" in the space industry, according to David Napier, an official at the Washington-based Aerospace Industries Association, a trade body.

But in the field of commercial space operations, dominated by communications satellites mainly for personal telephone calls but also increasingly for computer, TV and fax transmission, Mr Napier says "everything is going gang busters".

This year, according to the association, total US sales of space hardware, including satellites, launchers and ground equipment will come to $27.8bn, a small decline on last year.

Nasa and the DoD purchase roughly 45 per cent each of this total, with the remaining 10 per cent being accounted for by commercial customers, chiefly satellite operators.

"Because communications satellites have so much potential, commercial space sales are expected to grow reasonaby fast over the next few years," says Mr Napier.

The US space industry as a whole, which accounts for an estimated 70 per cent of global space sales, has been hit hard by successive US administrations clawing back on the Nasa budget in an effort to reduce the soaring US public sector deficit.

In the sector of communications satellites and launchers however, it has been a different story. US companies such as Hughes (owned by General Motors) and Lockheed Martin (formed by the recent merger between Martin Marietta and Lockheed) have reasonably good order books for these products – even though the world market for launching satellites is dominated by Arianespace, a French-based organisation owned jointly by west European governments and companies.

'Commercial space sales are expected to grow reasonably fast over the next few years'

Arianespace, operator of the Ariane rocket, is reckoned to have 60 per cent of the orders for the 68 satellites due to be launched over the next few years.

While its biggest competitor is Lockheed Martin, rivals include government-owned organisations in China and Russia which are trying to gain orders for commercial satellite launch projects using a variety of rocket systems.

Another rival could be a consortium of Boeing, the US aerospace company, Norwegian shipbuilder Kvaerner, and the Russian and Ukrainian rocket builders RSC-Energia and NPO-Yuzhoye, which are planning to build an unusual sea-based rocket launch centre for commercial satellites at a cost of up to $150m.

In the area of satellite hardware, a leading player striking an innovative stance on a number of projects is Orbital Sciences Corporation of the US which plans a series of Orbcomm satellites for telecommunications and data transmission and also is developing the Pegasus system of launching the mini-satellites from aircraft.

In other recent projects:

- Space Access, a US satellite company, has proposed a $1.93bn scheme to install a launching station in Portugal for hundreds of small satellites as the basis for a global telecommunications network.
- Inmarsat, the London-based satellite communications organisation, has promises of more than $1bn from its members to finance a global mobile phone satellite service.
- Spacecom, an Israeli company, has announced plans to launch a $250m communications satellite called Amos 1. The satellite will provide direct television broadcasts into homes.
- TRW, the large US-based aerospace manufacturer, is planning with Teleglobe, a Canadian provider of intercontinental telecommunications services, a $2bn Odyssey system to provide a global satellite system for mobile phones from 1988.

If these projects appear exciting and go-ahead, the same cannot be said for the US space station project which is being built for Nasa by an industrial group headed by aerospace manufacturer Boeing. In 1984, former president Ronald Reagan said the station would be in orbit in 1992, in time for the 200th anniversary of Christopher Columbus's discovery of the new world.

As events have turned out, the space station (if it happens at all) will become a monument to the difficulties of steering highly complicated technological projects through the US's political bureacracy – and of the US public's waning interesting in putting people into space.

Public disillusionment in the US with putting people into space set in after the 1986 Challenger explosion

The station is now tentatively scheduled to be in orbit by 2002. But many people are betting that it is unlikely to be in operation by 2020 – and some feel less than confident it will be in service by the end of the next century.

The atmosphere at Nasa is completely different to the gung-ho days of the 1960s when president John Kennedy promised he would put an American on the moon by the end of the decade – a feat which Nasa accomplished with several months to spare.

"The space station has fallen victim to a continued cash shortages at Nasa: it's been squeezed so hard there's hardly anything left," says Dan Greenberg, editor and publisher of Science and Government Report, a Washington-based newsletter for the US science community.

Public disillusionment in the US with putting people into space set in after the 1986 Challenger explosion, which killed seven astronauts on a routine space shuttle launch.

Now that the space shuttle programme has returned to a semblance of order after a series of costly safety improvements, public interest in manned space extravaganzas is still far from high. This is despite the plans for the space station – which the shuttles are due to lift into orbit in segments – and a sequence of ambitious manned ventures between the US and Russian over the next two years.

Over this period the US space shuttle Atlantis is due to dock seven times with the Russian space station Mir. This is a technologically simple module which has been orbiting the earth, for most of this time with a crew, since 1986.

A high point is expected later this month in the first of the dockings – which promises to be the first time that US and Russian spacecraft have linked in space since the 1975 Apollo-Soyuz mission.

Russia is also co-operating with Nasa on the Alpha space station programme, which will take a total of 27 shuttle flights and 44 Russian flights to build and to send up crews and fuel.

Nasa estimates the orbiting laboratory will cost the US taxpayer nearly $30bn – up from the estimated $8bn forecast in 1984.

The investment will not include smaller sums to be contributed by Russia, Japan and western Europe, which through the auspices of the European Space Agency is designing a small laboratory to be plugged into the central core of the station.

Peter Marsh

Defence policies reflect spending cuts, says **Bernard Gray**

Value for money a priority

At the peak of the cold war, 85 per cent of all military spending worldwide came from members of Nato or the Warsaw Pact. Since the collapse of the confrontation in central Europe, defence spending has fallen by about a third, and more if inflation is taken into account. Spending by members of the Warsaw Pact is harder to gauge accurately, but their military establishments have also faced heavy cutbacks.

So it is hardly surprising that the end of the cold war has had a profound impact on defence policies and knock-on implications for the defence industrial base. Countries have had to be more selective in the projects they back and value for money has become a much higher priority, replacing the old doctrine of high technology performance more or less regardless of cost. Companies in turn have had to retrench and reorganise.

The short-term impact has been that western governments have had to accept some retreat from the policy drive of the 1980s towards increasing competition between defence manufacturers. In many cases, the level of work is no longer sufficient to maintain more than one producer of equipment. Even the US now has to accept that it can only afford one maker of tanks and submarines.

Policies to ensure value for money have thus had to adjust to reflect these new realities, and ensure that ministries can still get value for money. In the UK the process of Napnoc – no acceptable price, no contract – has been refined to give the ministry of defence a clear view of the margins companies are earning. Sole bidders for a particular project have to expose their internal financial details to close scrutiny to satisfy the MoD that they are not padding out contracts.

The US has gone beyond this and is actively managing its defence industrial base. A new assistant secretary of defence post, currently occupied by Josh Gotbaum, has been established to manage the consolidation of the defence industry. It is not designed to provide an strongly interventionist industrial policy, but does recognise the involvement of governments in defence issues.

Mr Gotbaum's office scrutinises potential mergers within the defence industry to assess their acceptability to the Pentagon. It has recognised areas where the government has to accept monopolies or near monopolies and that the government may have to order some equipment not strictly needed simply to keep facilities open. A third advanced Sea Wolf submarine is likely to be built at General Dynamics Groton Connecticut yard, for example, simply to maintain a critical mass of staff.

The US is also examining the complete procurement process to see where money can be saved. External auditors suggest that Pentagon procurements cost 18 per cent more than their civilian counterparts as a result of the way the Department of Defense does business. On a $50bn equipment budget every year, saving that money could free up almost $10bn for other uses.

Mr Gotbaum is also working with industry to ensure that the benefits of consolidation flow both to companies and the government. The rationalisation of missile and space launcher capacity as a result of the merger of Lockheed and Martin Marietta had to be approved by the Pentagon because it reduced the choice available.

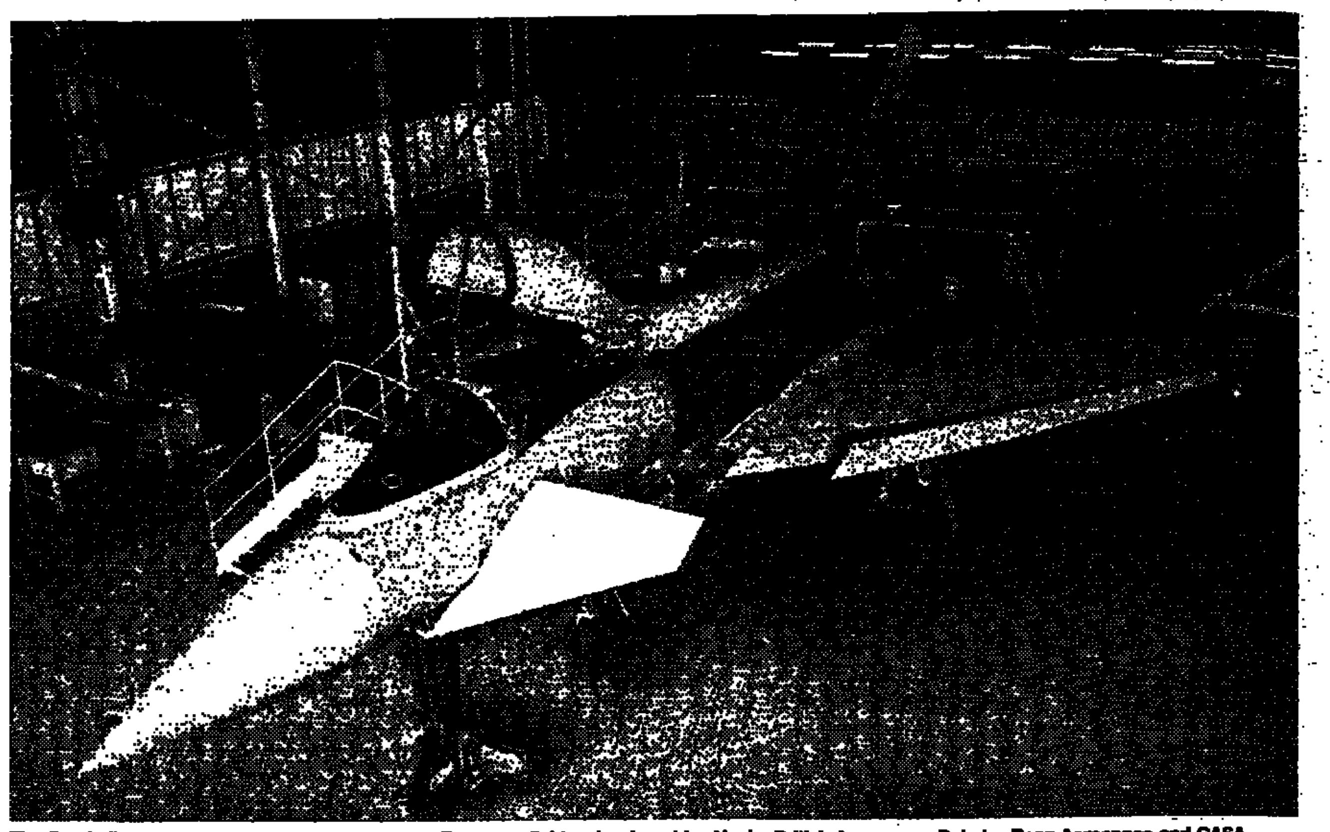
However, the DoD stands to save about $1bn over the next 10 years as a result of not having to maintain excess manufacturing plant.

There are strong signs of action in the US and some movement in the UK, but the lack of response in continental Europe does not mean that these governments have avoided the problem. According to the white paper produced last year, France intends to maintain its defence spending, though it remains to be seen whether President Chirac will maintain that policy.

Even so, heavy losses means that pressure on over-manned state-owned defence companies is strong. While the French government has made some moves in the direction of defence industry consolidation within Europe, and has suggested a new co-operative arms agency, questions remain about the degree to which France will be prepared to tackle the industrial issues which face it.

Companies and governments worldwide will have to work on ways to make equipment more affordable. Some programmes in the US, such as the Joint Advanced Strike Technology, aimed at producing a naval and air force strike fighter, or the New Attack Submarine programme, are working on ways to cut costs.

JAST uses an all-computerised design system which eliminates the need for early prototypes and should make manufacturing easier. Its enthusiasts hope that JAST could become the 777 of the military aircraft world, cutting the design time, limiting risks of cost overruns and producing a predictable and capable aircraft in record time. The aim – as with the four-nation Eurofighter 2000 – is to break the spiral of geometrically increasing costs for each new generation of aircraft.



The first Italian development aircraft (DA.3) of the European fighter developed by Alenia, British Aerospace, Daimler-Benz Aerospace and CASA.

In the long term, however, retrenchment and use of new technologies to cut equipment production costs may not be sufficient response to the pressure on defence budgets. The cold war was a powerful technological driver which gave a level of certainty to governments and industry allowing them to invest in technical development. Now the need to have the highest technology solution to any problem is much reduced, and the funding is not there to produce huge leaps forward.

The result is likely to be a much slower pace of technical development over at least the coming decade, and perhaps much further into the future. If that happens, government and industry will no longer be able to carry on with traditional development and procurement policies: there may simply not be sufficient business to warrant long development phases for entirely new aircraft followed by long production runs.

Instead, industry and governments may have to adapt to using many fewer engineers to produce upgrades and service life extensions for existing equipment. Key skills, particularly to innovate, may be lost and the period of two world wars and the cold war could become seen as an unusually rapid period of development of military technology.

That message – that large parts of the defence industrial base are redundant and unaffordable – has not yet begun to sink in to policy makers in governments or industry. But the time when it will may be fast approaching. With current budgets, equipment is going to have to last a long time and the approach will be one of make do and mend. *Coping with that problem* is the 21st century challenge for both defence planners and industrialists.

Bernard Gray looks at progress on the Future Large Aircraft military transporter

Management issue still to be resolved

Enthusiasts for the Future Large Aircraft military transporter will be hoping that the Paris Air Show will see an announcement that the project has now been successfully transferred to management by the Airbus Industrie consortium. Realists who have watched the programme will, however, fear that the FLA will miss another deadline in its development.

To be fair to the FLA's backers, the problems of transferring the project to Airbus are substantial. On the usual European basis of *juste retour*, shareholdings in the Airbus military aircraft company will be based around likely orders from the partner governments. However, those orders are unlikely to be finalised for at least a year.

Meanwhile, the structural problem of how to accommodate Italy, which is in FLA but is not a partner in Airbus, has still to be satisfactorily resolved.

Putting the project under Airbus management is one of the central requirements for the UK rejoining the project. The concept sold to the UK by the FLA team was that this would be much more like a civil aircraft development programme than a conventional military venture. Provided the partner governments agreed a fixed specification early in the programme which was not tampered with, Airbus would produce an aircraft in a timely manner and at a fixed price.

From that point of view it will be interesting for many other future military projects to see how the FLA programme fares. The issue of Airbus management should be resolved, at least in principle, and the outline of the aircraft's specification should flow from the feasibility study which has just been completed.

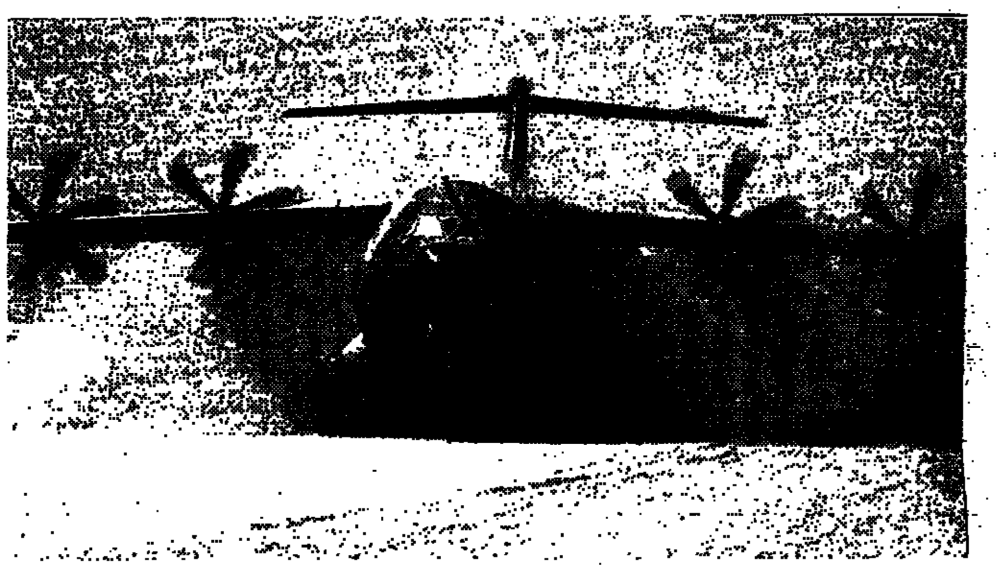
The timetable for further action now calls for the main partner governments, France, Germany, Italy, Spain and the UK to initial a Memorandum of Understanding on handling of the project this summer, with the legal Airbus company being established as soon as possible thereafter. The feasibility study should then be used as the basis for agreeing a military European Staff Target, perhaps by the autumn, which would lock in the basic characteristics of the aircraft's specification.

The more difficult issue will be the agreement on how many aircraft each country wanted to buy, which might be taken next spring but which might equally prove elusive. The pressure will be on, however, because the FLA's pre-development phase is slated to begin in January next year and run for 30 months to mid-1998. Main development should then run to 2002 with the aircraft fully operational and available by the end of 2004.

According to British Aerospace, the main elements of the specification are now pretty well fixed. It will have a cargo bay 4m wide, enabling it to carry two Land Rovers side by side. Its maximum take of weight will be 114 tonnes and it will have a high swept wing with four turbo-prop engines to give it a cruising speed of Mach 0.72.

Continental partners in the FLA programme seem less confident that the specification is so cut and dried. Some have argued for a smaller cargo box which would reduce the cost of the aircraft.

Others continue to hanker for a turbo-fan engine which would increase the aircraft's cruising speed. While an engine change is now unlikely, debate about the specification of the aircraft, and the trade off between size and cost, could cause some delay.



The FLA military airlifter: the pre-development phase is slated to begin in January next year

Part of the problem with specification is that while reducing size will cut costs and make the programme more politically acceptable, it will also put the FLA closer to the market dominated by Lockheed Martin C130J, cutting into export prospects. The variety of missions each country wants to fly also pulls the FLA in several directions. France would love the strategic lift capacity which a large aircraft would bring, but even the size of FLA envisioned by the British would be almost too large to fit into some of the African airfields France might wish to use.

But if the specification causes some debate, it will be as nothing to the arguments over work share and financial commitments to the project. At present none of the main partners has substantial sums budgeted for the FLA.

Indeed it is ironic, given the UK's previous withdrawal from the project, that as a result of its decision to buy fewer C-130Js than allowed for last year it is one of the few countries with any money formally allocated for the aircraft's development.

Next year will thus see some hard decisions about budgetary priorities and just how much each country wants the FLA. As with the aircraft's specification, the risks are that the programme will face further delays, but with some commitment on the size of orders required, 1996 will be a crunch year for the FLA.

Another requirement for Britain's re-entry to the project was that its share of development costs should be financed commercially. For example, the government might put down a deposit against delivery of an aircraft, and agree to have development costs rolled into a higher fixed price of the transporter in return for a firm order. The companies could then use the order to get bank finance for the required development work. That plan will have to wait for firmer ideas on numbers, but given the cash-strapped state of most member governments, the idea may have appeal well beyond its original UK audience.

The other hurdle to be jumped is the decision over who should build which parts of the aircraft. By far the most contentious element is the manufacture of the wings, with both Dasa of Germany and BAe still determined to win the work. If the UK orders sufficient aircraft to justify a 20 per cent share of construction, which would be roughly equal to making the wings, it is hard to see the work going to Dasa. BAe has a large investment in its wing factory at Chester, and other Airbus members are unlikely to sanction the expensive creation of duplicate facilities.

Still, Dasa feels that it is manufacturing low technology components in Airbus, despite its high shareholding. One compromise may be that final assembly of the FLA is allocated to Dasa's plant in Hamburg. It may not give Germany all of the work it seeks, but with Germany and France as the only final assembly manufacturers for Airbus, the prestige may soften the blow.

American defence industry consolidation has left Europe struggling

US market sets the pace

The rapid pace of consolidation in the US defence industry, which was crowned by the Lockheed Martin merger earlier this year, has left European defence companies struggling in its wake. While many in Europe will gaze enviously at the large US market and private sector shareholdings which allow businesses to be bought and sold easily, few in Europe are certain how its industry can respond to the challenge of contracting defence budgets effectively.

Some consolidation within countries is happening, as British Aerospace and the General Electric Company's pursuit of the submarine maker VSEL shows.

Costs are also being cut, particularly in the UK where staff numbers continue to fall. Yet the process of rationalisation on the continent, and the pace of cross-border consolidation, is still painfully slow.

It remains to be seen whether continental countries are willing to take the social pressure which would follow a rationalisation of their defence industries, or whether they prefer to maintain effective subsidies from taxpayers by buying expensive defence equipment.

Mergers being negotiated, such as that between BAe's and Matra's missile businesses are taking years to complete. Existing collaborative programmes, including the £32bn Eurofighter 2000, still have to pick their way through political minefields such as opposition in the Bundestag.

Planned joint programmes such as the Future Large Aircraft have to piece together difficult coalitions and elaborate shareholding structures to accommodate a patchwork quilt of partners.

Governments have often taken a narrow national view and refused to offer the leadership to industry

Governments have often taken a narrow national view and refused to offer the leadership to industry, or to design frameworks which could facilitate change, or even to make the compromises which would help close deals.

The difficulties are certainly enough to make most defence industry executives weep. Yet there are at least a few signs that some change is on the way. Roger Freeman, the UK's defence procurement minister, has taken the initiative to argue in favour of cross-national mergers and collaborative programmes as the best way to cut excess capacity in the industry.

He has suggested that the UK should join the proposed Franco-German arms agency, and offered to put programmes such as a new Multi-Role Combat Vehicle, the £6bn Horizon frigate project and even the Eurofighter under its management. Mr Freeman's vision is of a project office asking for competitive tenders for batches of work. That may be a far cry from traditional continental ideas of work allocated on the basis of purchases, but it does at least give ministers who discuss the defence industry in the Western European Armaments Group a basis for talks.

There is also a much greater recognition among European governments that autarky in the defence industry is no longer a practical policy. Even France, long the country keenest on maintaining its complete independence, is collaborating with the US on development of the most sensitive and high reaching areas, such as anti-ballistic missile technologies. At the other end of the scale, both Britain and France seem content to become dependent upon each other for the supply of commodity items such as bullets, provided the interdependence is mutual.

Progress on rationalising collaborative programmes is being made too. The UK is suggesting ways of improving the operation of programmes such as Eurofighter, with work parcelled out in a more modular way so that single companies look after complete subsystems. The Horizon frigate collaboration between France, Britain and Italy also contains competitive elements for the first time.

That still leaves a huge task for European politicians and industrialists to translate the rhetoric about an integrated European defence industry into effective action. The philosophical gulf between Anglo-Saxon business methods and continental co-ordination is huge. It is, for example, far from clear that countries such as France or Germany will be prepared to accept the competitive spurs which the UK wishes to see applied to companies.

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The deafening roar of PR campaigns in full flight threaten to drown out rational debate in Britain as the UK's competition to select an attack helicopter for the army approaches its crescendo.

But all of the hype is part of a struggle for life in a helicopter industry badly hit by the global decline in defence spending.

A decision is expected by July, and with business at a low ebb around the world, the result will help determine which companies have the stronger hands when the rationalisation of the global helicopter business starts.

As the £2bn competition to supply 91 anti-tank helicopters enters its final phase three main teams are still in the running: the McDonnell Douglas Apache; Eurocopter's Tiger and the Bell Cobra Venom.

The Apache team looks like the aristocrats of the competition. Led by Westland, the only UK helicopter maker, the Apache is the main anti-tank helicopter of the US Army and is also the apple of the British Army's eye. It has the most lift, can carry the most weaponry, but is probably also the most expensive option.

Vying with the Apache as favourite to win is the Eurocopter Tiger. Its bid is being headed by British Aerospace in the UK, and it claims to be the most modern design, using an infra-red sight and the newly developed Trigat missile. BAe says that it is the 21st century weapon which the UK needs.

It also has the advantage of offering a European solution at a time when the ministry of defence seems keen on European collaboration. BAe would make 20 per cent of all Tigers delivered to Britain, France and Germany.

Bernard Gray on UK selection of an attack helicopter

Competition will be a test of strength

The wild card in the competition is the Bell Cobra Venom. It is a development of the AH-1W used by the US Marines, which originally dates back to the Vietnam war. To update the helicopter GEC-Marconi, which is acting as lead contractor for the UK competition, has developed a new glass cockpit which cuts back on the workload for pilots and so increases the helicopter's capability. The Venom's main selling point is cost – it is likely to be much cheaper than the Apache or the Tiger and, argues GEC, offers almost the same capabilities.

At present, speculation on the outcome puts the Apache and the Tiger neck-and-neck. Both would be modern helicopters with new weapons systems – in Apache's case the Longbow radar and Hellfire missile, in Tiger's the infra-red Trigat.

Ironically, for a competition where the MoD wanted to buy equipment off the shelf, both still need development work. Apache benefits from its success in the Gulf war and the recent decision by the Netherlands to buy it despite heavy lobbying by the Tiger team, while the Tiger team claims much lower operating costs for its aircraft because of its more modern design. Both also claim that large amounts of work would be done by British industry.

Given the strong organisations and lobbies behind Apache and Tiger, it is hard to see the Venom winning unless the Treasury decides that cost is the overriding concern. The ace up the Apache team's sleeve is the solid backing of the British Army; Tiger's trump card could be a desire in London to make a pro-European gesture to the new French president.

With the UK attack helicopter being one of the few large orders on offer, the winner will have a much stronger order book, and negotiating position, if the long-awaited rationalisation of the helicopter business gets under way.

While executives in the helicopter business argue that collaboration on particular projects offers flexibility in the way forward, that approach may no longer be efficient enough to cut costs, and talks on outright mergers may have to start.

If the Tiger wins, then the Franco-German Eurocopter group would be in a strong position in Europe. While neither Westland nor Agusta, the two other European competitors could be attacked easily as they are part of larger groups, the difficulties faced by Agusta and the smaller order book of Westland could force them into talks on closer links from a less advantageous position.

If the Apache wins Westland, which also won an order for 22 EH101 transport helicopters from the UK recently, would be in a stronger position. But its ties to Agusta on the EH101 may not be the springboard to a closer union between the two companies given the weakness of the Italian position. However, Westland could start negotiations with Eurocopter with a much stronger hand.

In the US, too, the outcome of procurement decisions is tipping the scales between manufacturers. The Boeing-Bell V-22 Osprey, which can hover like a conventional helicopter or fly like a prop aircraft, seems to have firm congressional support. It is also the top priority for the US Marines, who want to replace their ageing transport helicopters.

The future of the other large US procurement, for the Boeing-Sikorsky designed Comanche battlefield reconnaissance helicopter, is far less certain. John Deutch, the previous deputy defence secretary, decided to complete development but hold off production of Comanche as part of a review of large procurement programmes last year.

The programme is now being altered, and the companies are arguing strongly for the role Comanche can play in local control of the battlefield and as a focus for information. However, it is far from clear that the extra funds needed for production will be found soon.

Even if Comanche production is delayed, Boeing looks the best placed of the helicopter companies. McDonnell Douglas may pick up some useful work if Apache wins in the UK and will continue to update the US fleet, but lacks production on a new model. Bell and Sikorsky at this stage look to hold the weaker hands, but there is little way to tell which way the helicopter business might be rationalised.

Many industry executives believe that there is room for perhaps two or three US helicopter makers and one or two in Europe. Rationalising the bespoke cottage industry which has been helicopter manufacturing is more easily said than done, however. Boeing looks like the nucleus of one US survivor and Eurocopter could form a European hub. How the others will be drawn into these groups is more problematic.

It is, however, increasingly clear that they must be. The high cost of helicopter transport has kept it as a military necessity and civilian luxury. With military budgets squeezed tight, armies may not even be able to afford their necessity unless costs are cut in the industry through rationalisation. And soon.

Europe falling behind

Continued from page 10

Equally, it is hard to see that Britain will accept the degree of international industrial policy, and potentially the restrictions on US competitors, which some on the continent feel is essential to nurture a genuinely European defence industrial base.

The gap is made clear by a couple of examples. France wants the UK to allocate a development programme for its long range stand off attack missile to the proposed BAe-Matra missiles venture, when it has already launched an open competition with potential entrants from the US and other parts of Europe. The UK has refused to accept French arguments that the US market is not open to European producers, and that Europe should be more closed to the US in return. On the other hand, France is unlikely to abandon its policy of *juste retour* on future projects, such as Horizon or the FLA, regardless of how inefficient the process is.

Narrow national self-interest also plays a part in frustrating progress. This summer there will be a tough private negotiation, and possibly even a public row, over how work should be shared out for the production phase of the Eurofighter. Germany wants to keep a third of the work – its share of the development spending – despite the fact that the project agreement only entitles it to less than a quarter of the work now that it has decided to buy fewer aircraft.

Divisions over such issues hardly augur well for the prospect of countries being sufficiently long-sighted to make the compromises necessary to build a European industry. Although governments, and the companies they are so closely entwined with, can buck worldwide pressures for more efficient production for some time, they cannot do so forever. Already in competitions in Europe, the lower cost of US systems is leading countries to reject the European option.

The Netherlands decision to buy the McDonnell Douglas Apache attack helicopter on performance and cost grounds is a straw in that wind. Several UK competitions have also favoured US projects, and British defence ministers had to order the MoD to buy Westland EH101 helicopters on strategic grounds, despite the extra £300m cost. Given pressure on government budgets, such problems can only increase. Export markets will be eroded even more rapidly if Europe does not improve its competitiveness as fast as the US.

The risk is that Europe will obtain increasingly ineffective defence equipment at rising prices. Industrialists have to make what progress they can, and press governments to act. The cracks are already showing badly. Given the length of time it takes to get anything done in Europe, the sooner everyone starts, the better the chance the European defence industry has of surviving.

Bernard Gray

Profile: Eurocopter

Appealing to British industrial ambition

Jean-Francois Bigay: 'We need to get maximum competitiveness'

In his bid to win the UK government's forthcoming order for as many as 91 attack helicopters, Jean-Francois Bigay, president of the Franco-German joint venture of Eurocopter, is appealing to Britain's industrial ambition.

"If the British want to stay out of designing helicopters, then our offer is not the best for them," he says. The UK defence ministry should opt for one of Eurocopter's two US rivals – McDonnell Douglas with its Apache or Bell with the Venom. Either of these US programmes will ensure, Mr Bigay says, that the UK remains a metal-bashing subcontractor in helicopters. Eurocopter, Mr Bigay says, will turn to others ready to join it in the adventure of co-producing new helicopter models, such as the small 1.5 tonne EC 120 helicopter which it is designing and building with China and Singapore.

In fact, Mr Bigay is anything but insouciant about the UK decision. Eurocopter is desperately anxious to win the British order. Over the past three years its has won about 50 per cent of the market for civilian helicopters. But gaining only 15 per cent of the highly protected military market in the face of fierce US and Russian competition, it is still losing money for its shareholders – Aèrospatiale with 70 per cent and Daimler-Benz Aerospace (Dasa) with 30 per cent.

In the three-way battle for the UK order, the rival Tiger-Apache-Venom bids "will be roughly the same in terms of cost and technical parameters", Mr Bigay says. "I am sure that the [UK defence ministry] negotiators have brought us very close together," he says.

He is thus keen to vaunt the Tiger programme's industrial and political differences from its rivals. If the UK government were to buy Eurocopter's Tiger, Mr Bigay says: "UK industry would not be just a subcontractor, but become an integral part of the programme". Eurocopter's UK partner in the Tiger bid, British Aerospace, would end up making the munitions and supply some parts not only for the 91 Tigers going to the UK, but for the 427 machines which the French and German governments are to buy, and for any exports.

"The capacity for European countries to conduct joint military operations is also fundamental," Mr Bigay says. Belonging to a joint programme with France and Germany "would also help the UK share some life-cycle costs like spares and training with its partners", he adds.

In the long run, Mr Bigay sees the need for a single European company making military helicopters

In the long run, Mr Bigay sees the need for a single European company making military helicopters. "Where the US places orders for several thousand machines, in Europe we never have a total need for more than 800, and you can't go on splitting that up into separate packets".

Nor are joint programmes enough. "Look at the co-operation we at Aèrospatiale once had with Westland in the UK, making the Puma, Gazelle and Lynx. These were great successes, with lots of exports. But now we do nothing together." The answer for the long term, he says, is to form joint companies such as Eurocopter with a sharing of assets. "We need to get maximum competitiveness without grouping all the activities in one country, because that would not work in Europe."

Under Mr Bigay and his German co-chairman, Siegfried Sobotta, Aérospatiale and Dasa have pooled their marketing and research activities and produced a common range of machines from 1.5 to 10 tonnes.

"But we still have to tackle the issue of industrial rationalisation for new products such as the Tiger and the EC 135," he says. "We are considering the possibility of single production lines for these," he says, but coyly will not reveal where.

David Buchan

Michael Donne on the civil/defence split

Interaction grows

Over recent years, rationalisation and restructuring within the aerospace industries worldwide has accelerated as a result of the combination of intensifying international competition, the economic recession leading to cuts and deferrals in airline orders, and the severe effects on western defence spending of the ending of the Cold War.

While there has been talk of the possibilities of each side – commercial and military aircraft manufacture – turning to the other for some hope of relief, neither has been in any kind of financial position to take on board the other's problems.

This does not mean, however, that while civil and military activities are generally conducted in different factories with different specialist design teams and separate production facilities, there is no cross-fertilisation between the two activities.

In fact, a great amount of such exchange does occur, especially in areas of fundamental technological research and development. Because

More than 75 per cent of UK companies working on defence programmes also have civil operations

defence requirements – and space industry requirements also – continually push the frontiers of technology ever further forward, this cross-fertilisation is increasing.

The Society of British Aerospace Companies (SBAC) points out that more than 75 per cent of UK companies working on defence programmes also have civil operations.

It says that an independent study of the civil use of defence technology developed by Ministry of Defence contractors has found that in 40 defence contractors some £3bn of civil sales per annum were built on defence-generated technology.

Sir Barry Duxbury, director of the SBAC, says: "The interdependence between civil and military operations has therefore created significant, mutually reinforcing effects which increase the nation's wealth."

Fundamental areas of research and development which have featured in this cross-fertilisation include:

- The expansion of computer-aided design and manufacturing techniques;
- The development of new tougher, lighter and cheaper materials
- The evolution of new manufacturing techniques such as super-plastic forming and diffusion bonding of metals; and
- The use in both military and commercial aircraft of such operational techniques as fly-by-wire.

This trend is bound to continue, especially since the number of new projects coming forward is limited with each becoming more expensive, requiring the maximum possible transfer of technology and manufacturing processes between them so as to keep costs down.

Sir Barry Duxbury, director of the SBAC

On the manufacturing side, however, a fighter aircraft and its engine are totally different creations from an airliner, which is why design, development and production in each arena are generally conducted separately by different specialist design teams in different factories with different labour forces.

Many of the world's leading aerospace companies have the two types of activity in progress at the same time – and sometimes three if space activity is also included – but in separate factories run by separate divisions or subsidiary companies.

This however, does not prevent either the cross-fertilisation and transfer of technology between them, or even sometimes the exchange of component manufacture and parts assembly between civil and defence factories, especially where individual company financial or labour requirements may dictate.

This is likely to continue, notwithstanding the extensive restructuring taking place between companies on both sides of the aerospace business.

That restructuring is designed to ensure that the effects of shortfalls in workloads generated by concurrent airliner and defence procurement cutbacks, at a time of rising costs, are minimised in an increasingly competitive international environment.

The objectives are not to integrate military and commercial aircraft design, development and production, which would be impossible because of the different nature of the products, but to ensure that in each arena, the most economically beneficial use is made of the expertise and facilities the companies concerned possess, and that the available markets are not swamped by excessive and therefore wasteful competition.

This is why the idea has been mooted in Europe of bringing Airbus, hitherto solely an airliner consortium, into the military fold as the organisation potentially responsible for the projected military transport, the Future Large Aircraft (FLA).

If the FLA is brought to fruition, Airbus itself would co-ordinate the venture, and serve as a sales organisation, as it already does for its broadening family of airliners. By itself it would build nothing. Its partner companies, BAe, Daimler-Benz Aerospace of Germany, Aérospatiale of France and CASA of Spain, together with any others likely to become involved, would be the FLA manufacturers, with specific work-shares calculated on the basis of how much cash their governments committed to the venture.

Those companies would use their existing facilities to develop and build their respective contributions to the aircraft, as they now do for Airbus airliners.

In essence, because of its now extensive and highly successful experience in co-ordinating the development, production and sale of large internationally-collaborative commercial transport aircraft, Airbus offers a convenient way of getting a similar large, internationally-collaborative military transport aircraft off the ground. It would obviate the need to create another similar, but this time military, international organisation to do the job.

To that extent, the Airbus/FLA idea can be viewed as a cost- effective extrapolation of existing cost-effective restructuring in the European aerospace industry.

Bernard Gray on BAe/Matra missile operations

Agreement could fall at the final fence

While British Aerospace and Matra may not feel quite like Romeo and Juliet, the proposed marriage between their missile businesses has had such a rocky path that either company might be tempted to give up in despair. Although the current difficulties blocking a deal may eventually be resolved, the negotiations have taken two and a half years and could still fall at the final fence.

When BAe and Matra announced the engagement of their missile operations at the start of 1993 few people thought that cutting a deal would be so hard or take so long.

Now, at the very last step, with a commercial deal ready to be signed, the marriage contract could be torn apart because of a dispute between the French and British ministries of defence.

The problem could be seen with a charitable gaze as a philosophical difference between British and French defence procurement policies. Less charitably it might be viewed as a French attempt to squeeze a little more from a deal than was on offer, with potentially hazardous results.

After their lengthy discussions, BAe and Matra agreed a commercial deal where both sides would have a 50 per cent share in a joint venture Matra-BAe Dynamics.

But because Matra has the larger order book, BAe agreed to pay Matra £50m on completion of the deal, and up to another £100m over the next decade, depending on how much of Matra's order book is turned into sales. The two companies have broadly complementary product ranges and have been successful in different export markets.

The sticking point is that the French government has threatened to withhold its consent for the deal unless the UK awarded a contract for a stand-off air to ground missile to the newlyweds. "This is a new marriage, and it is traditional to give a gift to wish the venture well," said one French defence executive.

Unfortunately, the UK ministry of defence has already put its requirement out to competition, and in any event does not take kindly to such overt pressure. While some soothing noises have been made in Whitehall it has been made equally clear that no such deal can be done. Unless a fudge can be found, the merger could come apart.

The French government and Matra are concerned that UK procurement policies, which allow competition from all comers, may end up awarding a number of lucrative contracts to US manufacturers while, they allege, the US market is not open to them. In particular the McDonnell Douglas GrandSLAM missile would be a strong contender for the UK's stand off requirement, and the idea that Matra teamed up with BAe only to see orders flow to the US worries both Matra and the French government.

Britain has a long shopping list for new missiles in the next few years. It needs to

The juicy list of potential orders is one of the reasons Matra decided to tie up with BAe in the first place

order the 250-mile range stand off ground attack missile, an air-launched anti-tank missile, an advanced medium range air-to-air missile for Eurofighter and a close-in air defence missile for the Horizon frigate.

Indeed, the juicy list of potential orders is one of the reasons Matra decided to tie up with BAe in the first place. But they may refuse to sign if they fear the work will end up going to the US.

While the conflict between French objectives and the open UK market may be resolved, a deal is some distance off. One hope is that the election of a new French president may provide an opportunity to change tack on the issue without too much loss of face all round. Nevertheless, there is still a chance that the merger could fail. And the problem highlights the difficulty of negotiating trans-national mergers within Europe when the procurement philosophies of government's differ so markedly.

Given the slowdown in business since the end of the cold war, rationalisation is necessary. As well as the Matra-BAe tie-up, talks between Aérospatiale and Dasa on deepening their missile ties are continuing, though once again the process is taking longer than many anticipated.

More visionary eyes also look towards a grand alliance in European missiles with the Matra-BAe venture eventually merging with an Aérospatiale-Dasa group. They also look to bring in the electronics companies such as GEC-Marconi and Thomson which are heavily involved in missiles at some point.

Such deals might eventually come to pass, but progress on the rationalisation is painfully slow when compared to the shakeout which has already happened in the US. The way in which Hughes has consolidated its own missile business with that it bought from General Dynamics at a single site in Arizona points the way forward.

The recent merger between Lockheed and Martin Marietta will also bring its most substantial rationalisation benefits in missiles and space launchers. There may well be further consolidation to come: Raytheon, Lockheed Martin and Hughes have critical mass, but McDonnell Douglas, for example, must decide what to do with its missile operation now that it has lost out to Hughes in the competition to supply Tomahawk cruise missiles to the Pentagon.

But at least the potential path for companies in the US is reasonably clear. Those companies looking to consolidate have also got the backing of the Pentagon. Not only has the US Department of Defence accepted that a reduction of competition is inevitable, it is also actively promoting it cases where the deals can save the Pentagon money.

In the case of Lockheed Martin, for example, the Pentagon estimates that as a result of rationalisation and cutting the number of factories making space launchers and missiles, the DoD will save $1bn over the next decade.

All of which is a far cry from the tortuous politics of Europe, where countries are wary of sharing their highest technology missile technology with others, and differences of procurement philosophy and timing make the valuation and integration of businesses difficult.

If Europe is finding it hard to merge its missile makers, how much harder will it find to rationalise its aircraft and ship industries? The economic pressure and logic for European rationalisation is strong, but so far it seems the political will to complete the job is not equal to the task.

The environmental task is becoming tougher

Strict controls force industry to adapt

The world aerospace and airline industries collectively have achieved a good environmental record over recent decades, despite some contrary opinions.

The air transport industry, for example, has been obliged increasingly to fulfil the progressively tougher environmental controls on engine noise and pollutant emissions imposed by governments over the past 30 years, in addition to being required to adapt flight operational techniques to meet airport noise abatement procedures and night flight restrictions, with the inevitable economic penalties involved.

At the same time, the airlines have been adapting their techniques in other directions to make them more environmentally friendly. These activities range from reducing engine noise on the ground at airports through to recycling waste materials from engine oil to office paper.

Some airlines, including British Airways, publish annual environmental reports, setting out in considerable detail precisely what they are doing so as to demonstrate to the world their environmental awareness.

This philosophy is spreading. The International Air Transport Association (Iata), earlier this year published a major report,Environmental Review, setting out not only what is required by governments and other authorities in environmental matters, but also what the airlines are doing about meeting them.

In addition, Iata is setting up, in conjunction with other organisations, an "Environmental Data Bank". This is designed to bring together as much detailed information as possible on the measures that could and should be taken by airlines in order to improve their environmental awareness, and to facilitate the exchange between airlines of that information.

In the aerospace manufacturing industry, much has also been done to meet growing environmental pressures. New techniques, especially computer-aided design, development and production methods, have swept through the industry, improving processes so as to reduce waste, especially in the use of metals and other materials, which have not only had an environmental impact but

Manufacturers have spent billions of dollars on the development of aero-engines that meet the increasingly stringent noise and emissions regulations

also a significant economic one.

The commercial engine manufacturers in particular have spent billions of dollars on the design and development of improved aero-engines to enable airlines to meet the increasingly stringent noise and emissions regulations, with the result that the latest jet engine types available, such as the Rolls-Royce Trent, are much quieter and cleaner than their predecessors, despite their greater power outputs.

But it is recognised that the environmental task is becoming tougher. There is still much more research to be undertaken into the effects of aviation on emissions in the upper atmosphere, for example. The Iata Environmental Review pointed out that there are at present some 20 different research programmes on the atmospheric effects of aviation being undertaken by airlines in conjunction with the aerospace industry and the scientific community.

With the possibilities of such new aircraft as a second-generation supersonic transport (SST-2) or a subsonic Very Large Commercial Transport (VLCT) emerging in the early years of the next century, the need for total environmental acceptability of such aircraft from the start is paramount.

The economic benefits of becoming increasingly green are just as significant as the benefits accruing from protecting the natural environment and improving the overall public relations image of aviation.

Many airlines and manufacturers are finding that by being obliged to think more deeply about the environmental implications of their processes and procedures they can actually save money.

For example, the recycling of waste materials or elimination of waste by careful usage can result in significant cost savings.

Next December, the International Civil Aviation Organisation (ICAO – the aviation agency of the UN) will be holding a major meeting of its Committee on Aviation Environmental Protection (CAEP). The meeting aims to determine what further aviation environmental measures are either desirable or appropriate, in the light of increasing political and sociological pressures for such measures, especially in the developed countries of the world.

Much preparatory work for that meeting has been, and is being done.

It is too early to even suggest what may emerge from the meeting, but it is already clear that the growing external pressures themselves will require a continuing response from the airline and aerospace industries.

Michael Donne

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TURKEY

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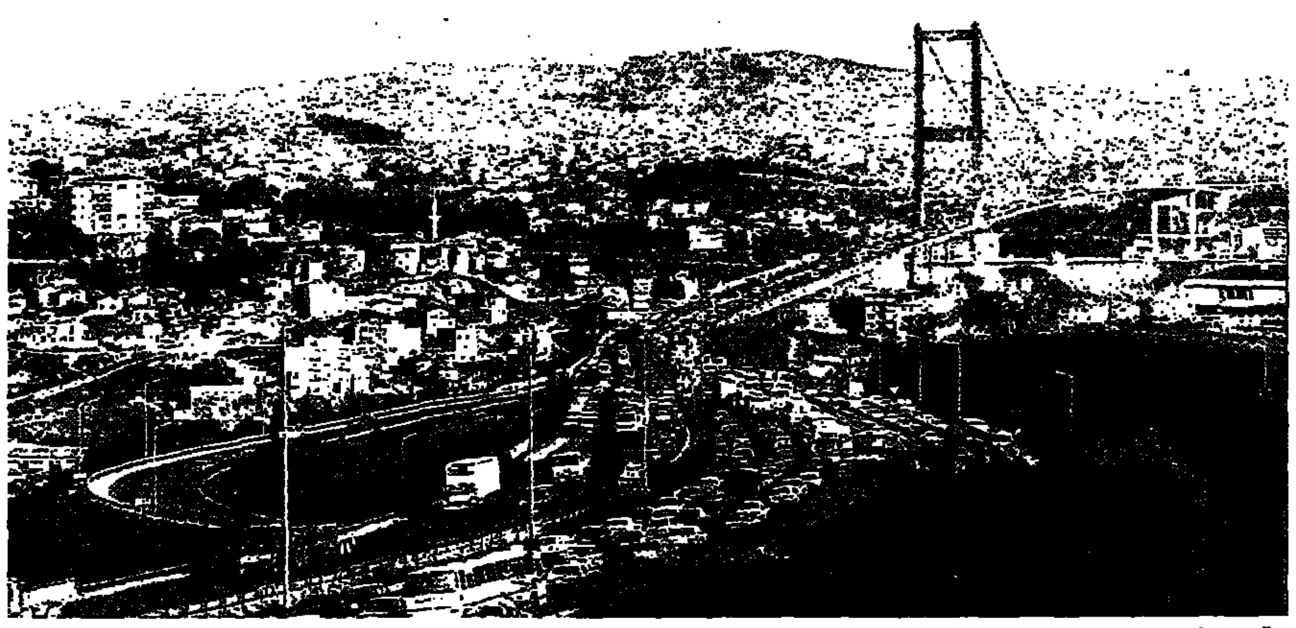
President Süleyman Demirel: unlimited freedom of expression could "lead to polarisation in Turkey"



At the crossroads: while two thirds of Turks favour strong ties with Europe, politicians claim that some of the European parliament's conditions strike at the foundations of the Turkish republic

A nation hovers at the door of Europe

Turkey must soob choose between taking the high road to growth, or to keep struggling along the low road which has meant instability and hardship in recent years. **John Barham** discusses the dilemma facing Prime Minister Mrs Tansu Çiller's government

Decisions made in the coming weeks and months may well determine Turkey's future for many years to come. The principal issue confronting Turkey is its ambivalent relationship with Europe.

The European Union's deadline for Turkey to carry out political and economic reforms, required to complete a landmark customs union agreement in 1996, is fast approaching. Yet Mrs Tansu Çiller, the prime minister, fighting for political survival, is struggling to deliver the changes the EU demands.

Customs union is far more than just a trade agreement. It is intended to bind Turkey closer to Europe, strengthening its economy and democratic, secular political system at a time when instability and militant Islam are on the rise.

Polls show that two-thirds of Turks support strong ties with Europe. Indeed, they are taught to consider themselves as Europeans from an early age. Turkey's ultimate objective is to gain full membership of the EU.

Yet many Turkish politicians are convinced that some of the European parliament's conditions for ratifying the customs union treaty strike at the foundations of the Turkish republic. Created in 1923 by Mustafa Kemal Atatürk, modern Turkey's political system is based on a secular, ethnically united, unitary state.

Among the European parliament's conditions are amendments to the Turkish constitution and the modification of security laws, notably the anti-terrorism law which makes any act that "threatens the indivisible unity of the Turkish state" a crime.

President Süleyman Demirel claims that unlimited freedom of expression could "lead to polarisation in Turkey. Those [groups] which have lived together would then be unable to keep doing so and Turkey would become ungovernable".

Worse still, interference from Europe, which many Turks believe is acting out of anti-Moslem prejudice, is rapidly reinforcing Turkey's powerful nationalist instincts. What is seen as a patronising European patronising approach is further deepening resentment.

No issue divides Europe and Turkey more than the 11-year guerrilla war in mainly Kurdish south-east Turkey.

European public opinion is horrified by the carnage of a conflict that claims 10-20 lives a day. European governments say Mrs Çiller's determination to crush the Kurdistan Workers party (PKK) militarily cannot succeed. Instead, they urge a settlement with moderate Kurdish leaders to outflank the PKK. Without a political solution, they fear insurgency will only escalate, threatening Turkey's stability. However, an overwhelming majority of Turks believe that granting Kurdish autonomy would mean caving in to terrorism. Moreover, autonomy is equated with separatism and treason.

In the spring it seemed that Mrs Çiller had found a way to satisfy both Turkey's increasingly truculent nationalists and the Europeans. On March 20, 35,000 troops swept into northern Iraq, supported by artillery and air power to hit PKK sanctuaries.

Although European governments protested, the incursion was wildly popular in Turkey and bolstered Mrs Çiller's nationalist credentials. She said the operation – which failed to crush the PKK in northern Iraq – would strengthen her authority, allowing her to pursue political reform. Mrs Çiller said: "I have led the way in urging a relentless struggle for the complete defeat of the PKK. I must also lead the way in ensuring that we remove outmoded and unnecessary restrictions. I think the time is now close when my work will bear fruit."

Although she has made no headway since then, success in minor local elections on June 4 may help her suppress a rebellion of hardline conservatives in her True Path party who oppose reform.

Customs union, Mrs Çiller's principal political objective, has, however, become hostage to party politics. If Parliament fails to approve political and economic reforms before its summer recess at the end of June, customs union will be seriously jeopardised.

Already, officials are cautioning that customs union may need to be delayed six months to July 1996. However, the EU's intergovernmental conference is to begin next year, probably to be followed by a new round of enlargement. Postponement could mean waiting until the next century for customs union, isolating a resentful Turkey on Europe's volatile southeastern rim. Should Mrs Çiller succeed in passing reform legislation at the last minute, as her aides say she will, she may well have ensured her re-election at the next general elections, due in the next 18 months.

Yet relations with Europe are not the only critical issue to be settled this summer.

Mrs Çiller's political fortunes will also depend on returning the economy, poised in precarious equilibrium, to sustainable growth. She has displayed impressive crisis management skills over the last 15 months in stabilising the economy. Growth is picking up after last year's record inflation and disastrous 6 per cent drop in (officially recorded) GDP.

Yet, here again, the embattled Mrs Çiller has so far failed to overcome opposition to reform. Politicians who rely on big government for patronage, not to mention opportunities for corruption, bitterly resist deregulation and privatisation. If, as seems increasingly probable, Mrs Çiller fails to ram through urgent economic reforms, Turkey could soon be plunged once again into economic crisis.

Against this difficult background, great social changes are taking place in Turkey.

Some 400,000 peasants are migrating every year to Istanbul, which now has a population of about 7.7m. Many are Kurds, fleeing poverty and violence in the southeast. The presence of a large, self-conscious Kurdish minority in western Turkey may deepen

Continued on Page 8

IN THIS SURVEY

A patriarch at home, an enigma abroad

Profile: President Süleyman Demirel

Ageing survivor puzzles the West

Mr Süleyman Demirel, the president of Turkey, thinks he is misunderstood.

As he digests Europe's demand for political reform and greater respect for human rights as a condition for approving customs union, his reaction is one of indignation.

"What we are trying to get our friends in the West to understand is that you cannot confuse human rights with the Kurdish question," he recently said, sitting in his spacious presidential office.

But, although Mr Demirel's comments may endear him to many Turks, it does little to improve understanding between Turkey and Europe. For, as the 71-year-old doyen of Turkish politics and former True Path party leader enters his third year as president, his strategy is leaving many observers increasingly puzzled.

Few would doubt that Mr Demirel occupies a crucial place in modern Turkish history. First drawn into politics in 1961, when the deposed prime minister Mr Adnan Menderes was hanged by a military government, Mr Demirel has served seven times as prime minister.

Two of these terms were cut short by military coups. Indeed, during much of the 1980s Mr Demirel was banned from politics. But in 1991 he staged a remarkable comeback, and after being re-elected prime minister became president in 1993 after the death of his former ally, and later rival, Mr Turgut Ozal.

Given that Mr Demirel originally backed Mrs Tansu Çiller as his successor and espoused a pro-European stance, he might now be expected to be pushing for the customs union at all costs. Indeed, it might be thought his own experience of political repression could even give him a certain sympathy for those suffering under the Turkish state.

But, in practice, Mr Demirel's recent comments have taken on a *hardline* edge that have left many Western diplomats baffled.

He recently suggested, for example, that reform of the anti-terrorism law should be approved by the army, called for a referendum on the customs union – and reacted furiously to Western demands for a non-military solution to the Kurdish insurgency.

"No one should ask that Turkey talk with these [Kurdish] criminals, as suggested in the West . . . these terrorists are not after rights, but after land," he insists, flourishing a map of alleged plans for "Kurdistan" – taken, from an unnamed geographical magazine.

He has also called for immediate parliamentary elections. "*I think the composition of the* parliament is now very different from the tendencies of the people," he says.

Mr Demirel himself insists he is doing this for democratic reasons. However, other observers suspect he and his long-time ally, Mr Hüsamettin Cindoruk, are attempting to topple Mrs Çiller as party leader.

Others point out that the lukewarm support he received from Europe when ousted from government may give him little reason to curry favour there. "If the West does not understand Turkey then Turkey will break off from the West anyway," he told a Turkish newspaper recently.

These comments may simply represent the views of an age*ing patriarch, but they may* also reflect a canny perception of a new political wind blowing through Turkey. For, as the last 30 years have shown, the one quality that Mr Demirel undoubtedly has is that of a political survivor.

Gillian Tett

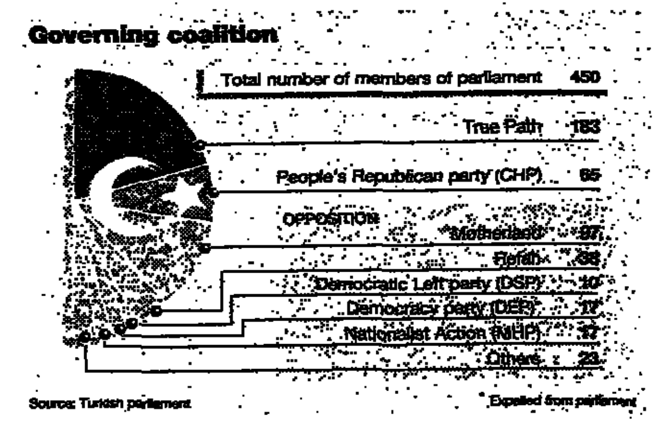
President Demirel: the 71-year-old doyen of Turkish politics, he served seven times as prime minister

Mrs Tansu Çiller: customs union could strengthen her position

Mesut Yilmaz: leaden performance as leader of the Opposition

Hüsamettin Cindoruk: nurses ambitions to be prime minister

Governing coalition



Source: Turkish parliament

* Expelled from parliament

Political storm clouds are gathering, reports **Gillian Tett**

Democracy comes under strain

As seasonal temperatures begin to rise in Ankara, Turkey seems to be heading for a hot political summer. After a year in which the country has been plagued by parliamentary squabbling, the coming months could be crucial in setting the course of Turkey's politics for the next few years.

The *immediate* issue is the future of the customs union between Turkey and the European Union, which the European Parliament says it will only ratify if Turkey amends its constitution, changes its anti-terrorist laws and releases six Kurdish MPs jailed for up to 15 years last December.

However, the passage of a political reform package through the Turkish parliament is also throwing up longer term questions about Turkey's ability to act as a mature democracy and its future political direction.

If the legislation passes and customs union goes ahead, the fortunes of Mrs Tansu Çiller, the prime minister of the ruling centre right True Path party, would be strengthened. Indeed, in spite of Mrs Çiller's unpopularity, achieving the customs union could propel her to victory in the general election which must be held by November 1996.

But if the legislation, and consequently customs union, is blocked by bickering in her party and opposition from a vocal nationalist fringe in parliament, Mrs Ciller's position – and the cause of pro-Western politics in Turkey – would be seriously weakened.

Perhaps more crucially, any stalemate over Europe could also strengthen the hand of Islamist and nationalist parties, which oppose the union. These seem poised to boost their position at the next election – a trend that could yet take Turkey on a radically different political course.

At present the position looks finely balanced. Mrs Çiller's supporters insist that, as the summer progresses, the prime minister, a feisty, former economics professor, will goad the parliament into action. Indeed, when Mrs Çiller has focused her energies – and considerable powers of patronage – on pushing legislation through parliament, she has often been successful.

Furthermore, Mrs Çiller has a striking ability to work the crowds and performs well on television, which is becoming increasingly powerful in shaping the political agenda.

"This situation is not a problem for Mrs Ciller, but an opportunity," argues Mr Emre Gönensay, a former lecturer at the London School of Economics and now Mrs Çiller's chief adviser. "This will make it clear to the public which political forces want to keep Turkey looking back – and show that Mrs Çiller is the only one pushing the country forward towards integration with Europe," he adds.

The government is also helped by the leaden performance of Mr Mesut Yilmaz, leader of the opposition Motherland party. He complains that "the government and other opposition parties persist in the claim that the roots of the economic disaster of today lie in the previous Motherland government".

Even Mr Gönensay's optimism cannot conceal, however, the political deadlock which has almost paralysed parliament in recent months. On paper, at least, the ruling coalition looks healthier than last year. In February the social democratic SHP, which had previously been in coalition with the True Path party, joined forces with another left wing group, the CHP, boosting the number of deputies in the Government coalition.

But in practice Mrs Ciller now faces almost as much opposition from inside her coalition as outside. President Süleyman Demirel, a former True Path prime minister and party leader, is openly agitating against her. Mr Hüsamettin Cindoruk, the parliamentary speaker and Mr Demirel's old ally, nurses his own ambitions to be prime minister.

Meanwhile, a block of True Path deputies have indicated that they will vote against Mrs Çiller on the crucial political reform package. They reflect widely felt resentment against interference from Europe – and an intolerable concession to the Kurds.

Mr Ertekin Durutürk, a True Path MP, says "freedom of expression must have a limit. Separatism and treachery are being presented as freedom of expression." Another True Path backbencher, Mr Yaşar Topcu, claims easing the anti-terrorism laws would only encourage the Kurdistan Workers party (PKK): "Youths of 17 years old who hear this will take up arms and head for the mountains."

But the real problem lies not in the arcane details of the current political power broking, as broader problems stemming from Turkey's shallow history of democracy – a history which has been interrupted three times since 1960 by military coups.

"Turkey is still in a transition phase – there is a real generation gap and a shortage of good, mature political leaders and parties," says one diplomat based in Ankara.

One indication of this is the degree to which the political squabbles of a tiny coterie of long serving politicians continue to dominate the parliamentary scene. However, another is the factionalised and highly local nature of party politics, which are often based as much around personalities as policy differences.

The centre right, for example, has generally received about 60 per cent of the vote in elections, but is split between the ruling True Path group and Motherland party.

Meanwhile, the left wing vote, which garnered about 25 per cent of support at the last election, is also divided between two (formerly three) separate groups.

In this confused spectrum, the only parties which are clearly differentiated are the neo-fascist Nationalist Action Party (MHP), which received about 9 per cent of the vote in the last general election – and the Islamic Welfare party, or Refah, which now controls about 28 of the country's 76 city councils.

Of the two, it is the latter which is currently causing most alarm among Turkey's middle class, who fear that Refah's recent success is signalling a drift away from pro-western secularism. *Recent* opinion polls, for example, have suggested that Refah currently enjoys at least 20 per cent of the votes.

But at present Refah is using moderate language. "All we want is freedom for religion. Although we are religious people, we talk less about religion than the other parties," insists Mr Abdullah Gül, vice chairman of Refah and an MP.

And although an anti-European backlash in the country may well emerge if the customs union falls through, for the moment Refah's recent success appears to owe as much to its anti-corruption stance and concern for the poor as any overtly Moslem agenda.

Indeed, as Mrs Çiller gears up for the customs union battle, her most immediate challenge is not staving off the threat of some fundamentalist bogeyman – but rather coping with the more mundane political *squabbling* that has been leaving Turkey's political system all but hamstrung over the last year.

The unofficial economy plays a crucial role

Bulwark against recession

Tourists visiting the historic quarter of Istanbul are adding a new place to their itinerary, the "Russian Bazaar". In a few narrow streets close to the famous covered bazaar, Turkish merchants ply Russian and Eastern European "suitcase traders" with items ranging from jeans to plastic goods. Simple and cheap, these products are the lifeblood of Turkey's underground economy.

"Suitcase traders" – so called because they smuggle their wares past customs officers in bulging suitcases – are believed to spend billions of dollars a year in Turkey, although of course nobody is certain.

What is certain is that the unrecorded economy has assumed a central role in the Turkish economy. Some analysts say it is as large as the official economy, although most estimates are lower. All are agreed that without the black economy, Turkey would now be sunk in a very deep recession.

Source: TEB Research & State Statistics Institute

Although the economy shrank by 6 per cent last year and wholesale inflation hit a record 150 per cent, the streets of Istanbul were choked with traffic, not rioters.

Turkish bankers suspect that, including the underground economy, Turkey actually grew by about 2-3 per cent last year. The OECD in its annual survey of the Turkish economy expects 2.8 per cent growth in 1995, but local analysts think growth will be nearly twice as much.

This hidden strength helps explain the extraordinary resilience of Turkey's economy.

Last year, the current account swung to a surplus of $2bn from a deficit of $6.38bn in 1993 – helped by a two thirds drop in the trade deficit to $5.16bn. Contrary to many expectations, the treasury was able to make service payments on its $80bn domestic and foreign debts on schedule. Instead, the central bank reserves rose steadily to a record $12.81bn in May.

Mr Tom Reichmann, the International Monetary Fund official supervising Turkey's standby programme, told an Istanbul conference "this was a remarkable feat, especially as international markets had almost turned away".

The underground economy is also a source of perverse national pride, because it shows a Turkey wealthier and more successful than the dire official statistics indicate. But the under-employed, the poor and unskilled urban workers have undoubtedly suffered great hardship in the past 18 months.

Furthermore, as one foreign economist points out, "the only thing an underground economy the size of Turkey's really shows is that the government lacks control".

Tax evasion is rampant – one banker says his corporate clients evade 90 per cent of their taxes. As a result, Turkey has the lowest tax revenues, as a proportion of GDP, of any OECD economy. This makes it hard to finance government spending adequately, leading to large budget deficits, high interest rates and persistent heavy inflation.

Yet the government lacks political determination to push through urgent changes to the tax system. It only introduced tax numbers this year.

Another critical area of weakness is the social security system. Populist politicians have pushed retirement age as low as 38 for women and 43 for men. The government is struggling to raise retirement ages to 60 and 65 respectively. The opposition immediately came up with a derisive slogan for the reforms: "Retirement in the grave."

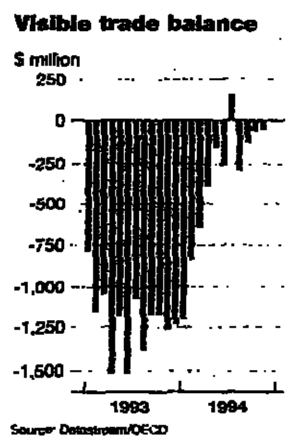
For the time being, then, social security reform is effectively blocked, even though the system's deficit looks certain to increase by over half from last year's $454.6m. Collection rates at the various social security funds range from 70 per cent to a mere 10 per cent.


Crowds throng a fruit and vegetable market in Istanbul. Although wholesale inflation hit a record 150 per cent last year, the city's streets were choked with traffic, not rioters

Far more serious are the deficits of the state companies. State company losses are one of the largest contributors to the public sector borrowing requirement.

In 1994, their deficit was equivalent to an estimated 2.6 per cent of GDP, while the government had to transfer aid worth a further 0.65 per cent of GDP to state companies, according to the OECD.

Almost as pernicious is the state enterprises' low productivity. State companies' value added per unit of capital is probably only one-third of private companies'. Labour productivity is estimated at 30-40 per cent below that in the private sector.



Source: Datastream/OECD

Overstaffing, poor management, corruption and political interference are these companies' basic problems. If their performance were raised to that of the private sector, GDP could be increased by 6-8 per cent.

Privatisation, though, is making agonisingly slow progress *(see report, Privatisation: unfulfilled promise, page four).*

However, the government's ability to stabilise the economy last year following the simultaneous balance of payments, currency and financial market crises was little short of miraculous. Supported by a $742m, 14 month standby loan from the IMF, the government set itself highly ambitious performance targets.

It cut the budget deficit by 59 per cent in dollar terms to $4.89bn in 1994, a remarkable achievement. Although the public sector borrowing requirement dropped by a third last year, it is still very high at 8 per cent of GNP.

Retail price inflation tumbled to 94 per cent in April from a record 126 per cent at the end of last year, although few expect the government can lower inflation to its targeted 40 per cent in 1995.

Nonetheless, the treasury has successfully stretched out maturities on its bonds to one year from three months and interest rates have fallen.

The economy is picking up speed again as the middle classes satisfy their pent up demand for consumer goods. However, this improvement is illusory. A US banker, based in Istanbul, comments: "Turkey will enter the summer in a really delicious situation. But in the autumn, when people are back from their holidays, they will find that inflation is coming up. They'll see there has been no action on structural reform. [Government] spending will be up. The lira will be looking really overvalued."

It is frustrating to see a government able to impose stringent short-term stabilisation policies yet incapable of attacking the root causes of its debilitating economic problems. One weary senior Turkish executive says: "There has been a consensus since the 1980s on the direction of the economy – everyone knows what the problems and solutions are."

If Turkey's custo.ns union with the European Union is finally approved this autumn, it would give a further impetus towards market reform and responsible policy-making.

There are, however, few observers in Turkey who remain optimistic about the chances of rapid change. An Istanbul business leader warns that structural economic reform is equivalent to a "social transformation. [These] do not come easily. It will take at least a couple of years to attain stability and transform the state."

But Turkey cannot afford to waste time. International competition is increasing alarmingly, especially from Asia's powerful new economies. Local and inward investment is insufficient: Turkey received just $432m-worth of foreign direct investment last year.

Widening wealth differences in a society that is both growing and urbanising rapidly may portend social upheaval in future years, especially if the government fails to provide strong, stable economic growth by adopting radical reforms.

Unlike Latin America, which suffered similar economic problems, Turkish politicians still see few electoral gains from tough economic reform. Until voters rate the trauma of reform to be less threatening than chronic instability, their leaders will surely prefer inaction.

John Barham

Europe's growing concern over human rights

Confusion of issues

Not many people in Europe would profess to care much about the Council of Europe. But when the pan-European human rights body castigated Turkey for its human rights situation last April, the events prompted outrage in Turkey.

Popular newspaper ran headlines on the story. Television channels gave coverage. And politicians denounced Europe's "meddling."

In any other circumstances, this reaction to a relatively toothless committee might have seemed simply ironic.

But as preparations continue for Turkey's entry into acustoms union with Europe, Turkey's record on human rights and democracy is casting a long shadow over its foreign policy, particularly with Europe.

The European parliament has made political reform a condition for ratifying a customs union treaty. In particular its demands include the abolition of clause eight of Turkey's anti-terrorism act, which makes it a crime to spread "propaganda [supporting] activities of terrorist organisations which threaten the indivisible unity of the Turkish state". Judges in state security courts interpret "propaganda" so widely that any speech, comment or article discussing Kurdish rights becomes an offence punishable by six months to two years in jail.

The European parliament also wants amendments to Turkey's authoritarian 1982 constitution, written by the country's then military rulers, that limit basic freedoms. MEPs also want six Kurdish MPs jailed for up to 15 years released. However, the problem is that human rights reform has little support in Turkey outside a circle of Turkish intellectuals, and a few political groups such as the newly formed New Democracy Party. Indeed, respect for human rights in Turkey actually appears to be deteriorating.

Public debate about the issue is difficult for two reasons. The first is a perception that Europe's criticism is simply a camouflage for anti-Moslem prejudice. Europe's inability to stop human rights violations against Bosnia's Moslems, for example, is frequently cited with indignation by Turks. Meanwhile, many Turkish officials have taken US reluctance to criticise Turkey's incursion in March into Northern Iraq to attack Kurdish guerrilla sanctuaries as tacit US support for a hard-line stance on domestic politics.

But the second problem is that the sheer breadth of human rights violations now occurring in Turkey means that issues of terrorism, ethnicity and freedom have become confused in the debate – leaving many Turks assuming that human rights reform is tantamount to making concessions to terrorists.

In practice, the problem is broader than a terrorist matter. Torture of common criminals to extract confessions, for example, persists. Religious minorities, such as the Shia Moslems, are harassed and unable to exercise full religious freedom.

Turkey's Shia community practises a less strict form of Islam, bringing them into often violent confrontation with a conservative and increasingly assertive Sunni majority.

There are 166 writers and politicians in prison serving long sentences for "separatism". Six Kurdish former MPs were jailed for up to 15 years in December for advocating Kurdish rights and holding meetings with the Kurdistan Workers party (PKK) guerrilla movement. Human rights campaigners themselves are particularly vulnerable. Twelve members of human rights organisation have been killed since 1991, 100 jailed or arrested and 14 regional branches forced to close.

But the focus for outside indignation is the state's treatment of the Kurdish minority, estimated to account for between 15 and 30 per cent of the population. Ethnic unity is perceived by many Turks to be the cornerstone of the state. Separatism or affirmation of a separate identity are equated with treason.

Meanwhile, the government's brutal suppression of the PKK is accelerating. South-eastern Turkey is under emergency rule, giving security forces free rein to terrorise local populations as well as attack the PKK.

The Turkish Human Rights Association says there were about 1,000 alleged torture cases reported last year, some 600 disappearances and deaths in detention, and 1,500 villages destroyed by security forces, which are using a "scorched earth" policy to flush out the guerrillas.

The guerrillas are also guilty of human rights abuses and moderate Kurds are careful to distance themselves from the PKK. But many observers believe that the army's brutality is simply fuelling Kurdish resistance.

"If you keep arresting MPs and stopping free expression you take away any democratic means of resolving the problem," says Mr Feridon Yazar, a Kurdish lawyer acting for the Kurdish MPs jailed last year. Mr Yazar himself is also facing jail.

Faced with this breadth of abuses, removing article eight is unlikely to change the situation significantly – though it might lead to the release of some 150 prisoners of conscience. Indeed, a complete overhaul of Turkey's legal system would be needed to establish the human rights and democratic standards that Europe demands. The Human Rights Foundation says article eight is just one of 154 articles concerning freedom of expression in various codes in Turkey.

But with so many MPs apparently refusing to amend article eight, such changes seem remote. Unless they can be persuaded otherwise, entry into a customs union – Turkey's single most important foreign policy objective – will be threatened.

Gillian Tett

FINANCE MARKETS

Risks with a Latin American rhythm

It might seem hard for Turkish banks not to make fortunes when real interest rates fluctuate between 20-60 per cent a year. The treasury's appetite for cash and the central bank's sound money policies have driven interest rates to Latin American levels.

Yet, as every banker knows, high reward implies high risk, and the risk of operating in financial markets in Turkey has become very high. A US banker says 1994 was "the first time that market participants realised what risk really is". Another says Turkish bankers are "more aware and experienced. They discovered that the market can also mean devaluation and bank failure" as well as growth and profits.

A heavy devaluation, collapsing financial markets and Turkey's loss of its investment grade credit rating in the *spring of 1994 hit financial* players very hard. Even the assets of Garanti Bankasi, probably Turkey's best banking group, suffered a drop of 27 per cent in dollar terms to \$2.54bn last year. Net income dropped by a fifth to \$166m. Other banks were hit far worse and three minor houses folded (leaving 75 international banks with dud loans) and Garanti took over a fourth that was on the verge of collapse.

This year, though, the story is one of recovery, consolidation and tentative expansion as the economy pulls out of the depression of 1994. Banks are reporting a recovery in consumer finance, loans to the corporate sector, and trade finance. Treasury operations still remain by far their strongest source of profit. An estimated 65-70 per cent of bank profits came from trading government bonds in 1994.

Although Wall Street credit rating agencies seem unlikely to upgrade Turkey's B rating for some time, the government's international cost of borrowing is falling sharply. It paid 350 basis points over Libor for a \$500m, two-year loan package in the spring. Now it would pay a spread of perhaps only 100-150 basis points.

Still, there is a lot of unfinished business in the financial sector. Unlike most industrial companies, grown lean and mean by recession, the banking business is not healthy.

Recklessly mismanaged state banks control 60 per cent of the banking system, distorting the market. The government's full deposit guarantee scheme – introduced at the height of the crisis in 1994 – may be encouraging risky lending by weak banks that would otherwise not be able to fund themselves.

Retrenching still has a way to go, despite heavy cutting last year. Banks rely too heavily on trading for profits. Inflation is masking many of their problems. It allows banks ingenuously to report nominal "increases" in income when inflation is actually eroding their capital.

One reason banks avoid reporting a loss is fear that this would trigger a run, because clients balk at keeping money at a loss-making bank. Poor accounting and supervision has allowed moribund private and state banks to survive.

JOHN BARHAM finds a new sense of realism among bankers and financiers

Mr Yaman Törüner, central bank governor, who shares responsibility with the treasury for monitoring banks, denies that supervision is a serious problem. Yet he does admit that "the main bottleneck is political. The decision on closing banks is made by the government." And no government, particularly one as embattled as Mrs Çiller's, likes closing banks.

An international banker says the government should "let some more banks go under. There is no risk of systemic [failure] now. But the politicians are interfering with banking regulation."

As a rule of thumb, most international bankers agree that large state banks have very serious structural problems – dud loans to other public sector organisations that are booked as performing, excessive staffing, political interference on a grand scale, corruption. Large private banks are considered generally sound, although one London banker says "things can move so quickly in Turkey that you never really can tell how risky exposure even to a blue chip bank can be". He says medium and small private banks are "bad news. Most are technically bankrupt." Foreign banks tend to be the best-run and most profitable of them all. Citibank, which has never lost money in Turkey, has no loan losses at the moment.

Mr Anjum Iqbal, general manager of Citibank in Istanbul, says the bank decided in 1994 to start a three-year expansion programme broadening the range of products away from corporate and investment banking to consumer banking aimed at upper tier individuals. This would make Citibank the only international bank with a consumer banking franchise in Turkey. It also aims to be more active in capital markets.

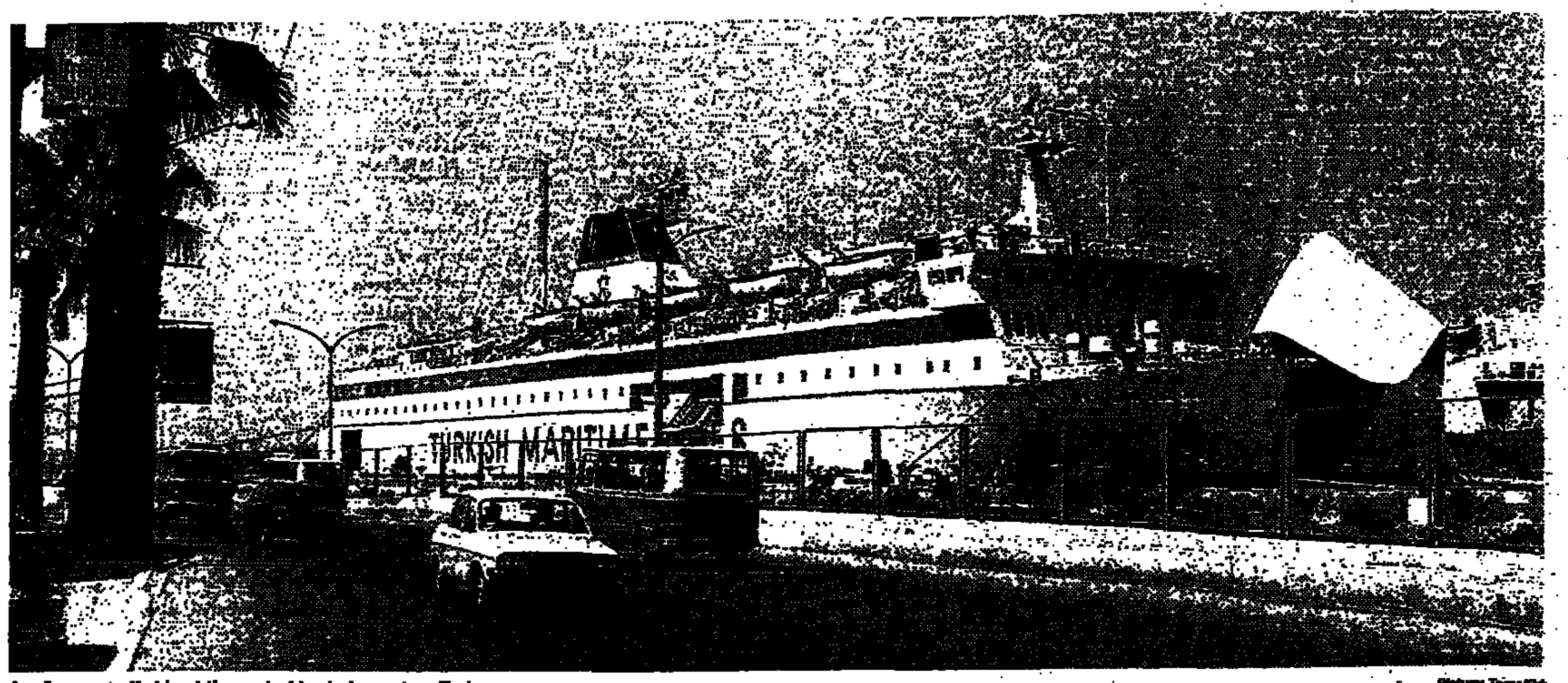
The Netherlands' ING Bank is also expanding in Turkey with a planned \$22m project to set up a full service branch office to do commercial lending and investment banking. Its Istanbul operation would be part of a wider play on central Europe and the Middle East.

Bankers do not hide that they contributed to this spring's \$500m loan for the treasury put together by Citibank because the government let it be known that approval for future business deals in Turkey – in infrastructure, privatisation, expansion of existing franchises – would depend on support for the loan.

Turkey has 71 banks, of which 21 are foreign-owned. Not all these banks can survive. It would not take a nightmare scenario to force a substantial reshaping of the system. Reduction of the 100 per cent deposit guarantee would lead to greater differentiation of risks by the market, forcing the dodgier players out of the market. Public sector reform would cut interest rates, again weeding out the weak. Falling inflation would further reveal banks' health.

The day of reckoning may still be some way off. But the survivors of a future shakeout will probably have to face greater competition, particularly in investment banking, where big money is likely to be made in corporate finance, project finance and privatisation. There are some straws in the wind. Companies are resorting more and more to the stock market to raise capital, although few groups have plucked up the courage to sell more than small minority stakes.

Of course, all this lies in a probably distant future. Yet as Aclan Acar, president of Bank Ekspres, says: "Banks must strike up long-term relations. For a temporary period you can make money from treasury [operations], but at the end of the day, you end up with your old corporate customers".



A roll-on-ro l-off ship at the port of Izmir, in western Turkey *Picture: Terry Kirk*

Modernising the infrastructure requires more than money, reports **John Barham**

Penalty for disorganisation

Turkey will probably be hit by blackouts next year. Its telephone lines are overloaded. The road network is crumbling. Istanbul, one of the biggest cities in Europe, has to ration water.

Inadequate infrastructure is emerging as one of the most serious constraints on Turkey's future growth. Although the government itself is unable to finance infrastructure projects, money is not a problem. Foreign governments, private banks and companies and organisations such as the World Bank all have a lot of financial backing available for infrastructure projects.

Yet the government seems incapable of establishing the necessary legal and regulatory framework. Turkey developed the Build-Operate-Transfer (BOT) model for infrastructure projects in the 1980s.

However, not one single BOT project has yet been completed in Turkey because of legal challenges, the bureaucracy's hostility to private capital and inability to negotiate adequate terms.

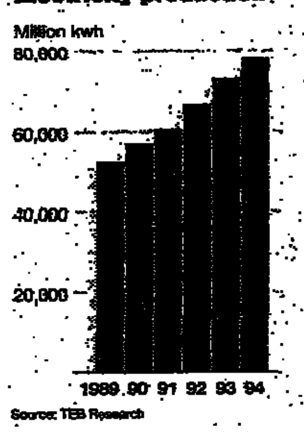
Neither has privatisation made much headway. The government has carried out some piecemeal sales, like the privatisation of electricity distribution on the Asian side of Istanbul. But this controversial sale is criticised even by government officials for inadequate regulation.

Still, the impending energy crisis is a business opportunity. Local and international companies are scrambling to build generating capacity for their own use and to sell excess power to the grid. The Koç group, Turkey's leading conglomerate, is building a \$40m unit, financed by the World Bank's International Finance Corp.

Citibank is backing a \$190m cogeneration project for a 14,000-unit housing project in Istanbul. Other groups plan projects that would provide power exclusively for the public network.

Although a World Bank executive says this is risky, because investors would be vulnerable to an unpredictable government, he says these projects could be highly profitable simply because demand for power is rising so sharply.

Electricity production



Source: TEB Research

Demand for power increases almost irrespective of the economy's erratic performance. Rapid urbanisation, a fast growing population and a big underground economy all place heavy burdens on the power system. Last year, electricity production grew 6 per cent, even though the economy shrank by 6 per cent.

Despite this, TEK, the government's electricity generator, lost \$1bn last year, mainly through overstaffing and widespread electricity theft.

The interminable debate over privatisation and BOT may actually be preventing action. Mr Anders Ericsson, Turkey country manager at ABB, the Swiss-Swedish power engineering group, says "these are being taken as an excuse not to make decisions in other areas".

For instance, about 40 per cent of Turkey's electricity generation capacity is out of service, mainly for lack of maintenance. ABB reckons it would cost \$100m to make the existing system fully available, much less than building new capacity. Even simple repairs could boost generation by 10 per cent.

Nonetheless, the government wants to build more capacity. It has approved 15 power projects to be built on a BOT basis worth \$5bn.

Better planning would also help. A diplomat says there are 4,000 unfinished infrastructure projects in Turkey. Most were started in response to lobbying by local politicians, but have been stopped for lack of finance. The government lacks political will to rank projects by order of priority and finish them.

Successive governments have also been mesmerised by prestige projects. Some have a measure of economic justification, such as the giant GAP hydroelectric and irrigation project in southeastern Turkey. Others, for example the incompleted \$9bn motorway linking Istanbul and Ankara, are more questionable. A mooted third bridge across the Bosphorus is little more than a fantasy.

There is little political glory in maintaining or completing existing projects. Serious planning will only come when consumers begin punishing politicians for blackouts and potholed roads. This may be happening already. If the new Refah administration in Istanbul succeeds in overcoming the city's chronic water shortages, its hold on power could be virtually assured.

Prospects for mass privatisation remain tantalisingly elusive

The mountain has given birth to a mouse

This is meant to be the year that privatisation finally gets underway. Optimism began rising at the end of last year, when the government rammed a long-delayed framework privatisation law through parliament and overcame legal challenges to sale of the telecommunications system.

Once again, though, the brave hopes for an aggressive multi-billion dollar programme are fading – just as they have nearly every year since privatisation was first mooted 10 years ago.

The government is still clinging to its aim of selling \$60bn-worth of state assets, beginning with \$5bn this year. So far, it has been able to raise barely \$70m from a few small-ticket operations. And almost all these deals have either unraveled or are in *jeopardy. No wonder the oppo*sition sneers that Mrs Çiller will not even meet one per cent of her target.

JOHN BARHAM describes the \$60bn sale of state assets that so far has raised only \$70m

Reshuffles of senior personnel only make things worse. In May, Mr Ali Şvki Erek moved from the privatisation ministry to transport, shortly after appointing Mr Ufuk Söylemez as the third head of the privatisation agency since passage of the privatisation law last November.

Inevitably, each new team takes time to settle in and establish a new set of priorities.

Prior to his departure from the privatisation ministry, Mr Erek dismissed complaints of procrastination, saying "we have already achieved in a lot in the last 145 days [since passage of the privatisation law] and there will be even greater progress in the coming two to three months".

*However, his record is unin*spiring. This year, the government has controversially sold the Karabük steelmill, an overstaffed lossmaker, to its employees and management for a nominal one Turkish lira – equivalent to one-four hundredth of a US cent. However, the new owners could fail to turn the company around – despite big wage cuts and a restructuring plan – landing it back in the public sector.

The government had to cancel the sale of its Et Balik chain of fish and meat stores to employees virtually free of charge in the face of angry opposition from public opinion.

Mr Erek says "this was not a wrong decision but public opinion was opposed and so it was canceled. Now we have changed strategy and given managers autonomy to restructure it." Et Balik loses \$1.4m a month on sales of \$3.6m.

Other flops include the cancellation of the sale of Petlaş, a tyre company, to a local buyer who failed to secure sufficient prior financial backing.

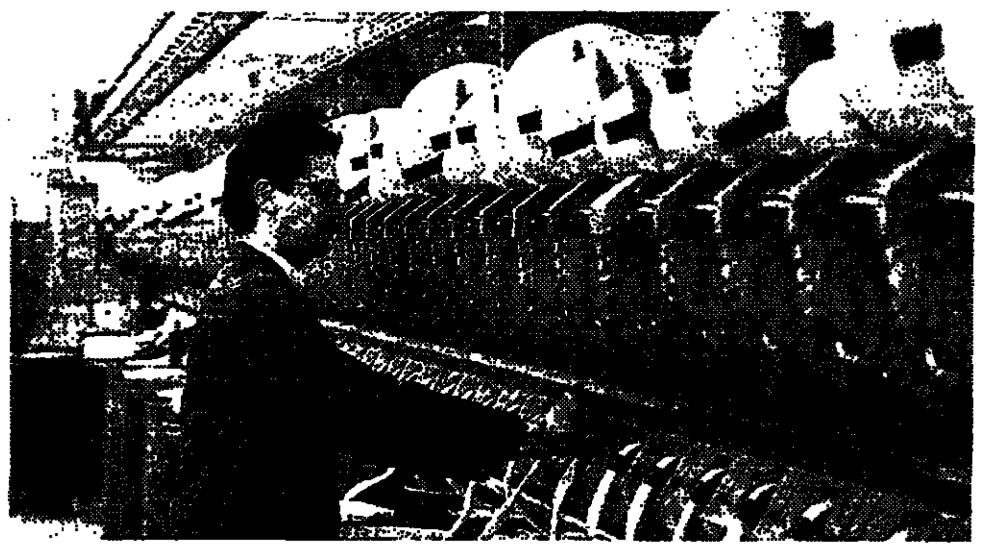
Still, there is at least one deal that should sail through: the sale of the state's 51.67 per cent stake in Eregli, *a well-run and profit*able steelmill.

Eight local and international groups are bidding for a 30 per cent stake, with the remaining 21.67 per cent to be sold through a private placement or global offering later in the year. However, bankers are unsure that the government can meet even half its \$5bn target.

A World Bank analyst says Turkey's problem is not merely execution, but strategy. It should start by selling large companies instead of small ones.

The Turkish government has taken a cautious line because public opinion is hostile to privatisation, fearing job losses. An executive at a blue chip Turkish group says: "The authorities are not successful in explaining what privatisation is and how it would affect society and the economy. Peo*ple do not understand what it* is."

Worse still, there is widespread concern over lack of transparency. Media reports and complaints in the business community about corruption, favouritism, asset stripping by buyers, and ad hoc bidding risk discrediting the very concept of privatisation.



Textiles is one of Turkey's strongest industrial sectors *Picture: Terry Kirk*

A shortage of capital is hampering industries, writes **John Barham**

Perils of standing still show up

Turkey's business class is a survivor. Industry responded to last year's dramatic downturn with impressive speed and tenacity. Although the private sector suffered a 12 per cent drop in output, recovery is already under way. Companies cut working hours, eliminated jobs, hacked at costs and switched aggressively from domestic into highly competitive export markets. But most still managed to turn a profit.

However impressive their crisis management, companies cannot afford to take their eyes off fundamental issues. The challenges facing industry are like those facing companies in many other countries; but they are more urgent. These include raising investment, finding new capital, developing new markets at home and abroad, tightening management, improving productivity.

Mr Bülent Eczacibaşi, vice-chairman, of the eponymous pharmaceutical company and a prominent business leader, says "big companies have to invest. If they stand still they will fall. They need to keep market share, export more, increase technology, even if investing does not make sense in mathematical terms".

Large groups can look abroad for cheaper, longer-term capital. Mr Anjum Iqbal, Citibank's general manager in Istanbul, says "each and every one of our customers is investing. Even in 1994, many of them scaled down but they did not stop".

However, his clients are large, blue chip local groups and multinationals. Few Turkish companies can afford the luxury of long-term planning in a highly volatile economic climate. They are vulnerable to interest rate shifts and zigzagging demand in their markets, often very local ones. Banks do not have long-term capital available, especially for small, risky companies.

Turkey is suffering from years of under-investment. Economists agree that an erratic economy discourages saving and investment. The corporate sector is highly liquid, which allows it to make more money on financial markets than on operations. Treasury transactions contributed two-thirds of listed companies' profits last year, which explains why companies stayed in profit even though trading conditions were terrible.

Mr Ishak Alaton, chairman of Alarko Holding, one of Turkey's big construction and engineering groups, complains that "businessmen have become rentiers because the government has made conditions for investment so bad". This year he is investing just $10m in Turkey.

Few companies plan large expansions or new green field plants. Instead, investment tends to be concentrated in existing facilities: de-bottle-necking, installing more advanced machinery, training staff, introducing new products. The approach of customs union, which will allow EU goods duty free access to the Turkish market in 1996, and falling tariffs against third country imports has brought an added sense of urgency.

Nobody is sure what effect customs union will have on industry. Bankers say it will increase investment by foreign companies. Many say they expect mergers and acquisitions once the treaty is ratified. However, a recent poll of Turkish companies showed that only 60 per cent feel ready to compete with EU imports.

A European Commission paper noted that textiles, one of Turkey's strongest industries, contains strong corporations using state of the art technologies to produce high value added goods that should feel little impact from customs union.

There are also many weak, inefficient companies producing low quality textiles that could suffer badly. And some sectors, such as cars, believed to be the most vulnerable to competition, are investing heavily in anticipation of tougher market conditions.

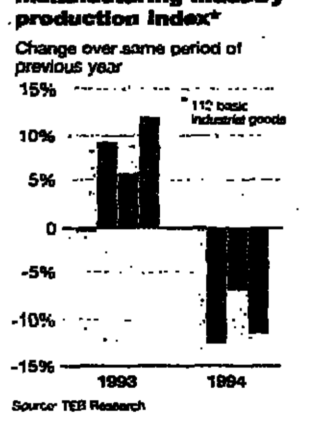
Still, few competitors underestimate the resilience and agility of Turkish companies. For instance, last year's rapid switch into exports was impressive, even if it was motivated by a desperate bid to cover overheads when domestic demand suddenly collapsed.

However, companies are making a strategic commitment to exports. The Koç group, Turkey's biggest conglomerate, is planning to double exports to $1bn this year, up from $650m in 1994 and increase group profits by 10 per cent over 1994.

The demands of a more competitive business environment are revealing weaknesses in management that previously went unnoticed or were of secondary importance. A US banker says "Turks get very high marks for entrepreneurship, but low marks for management succession and planning because they are still on a family-owned basis."

Manufacturing industry production index*

Change over same period of previous year



Source: TEB Research

Although large companies are adopting the latest international management techniques, a tradition of tyrannical owner-managers and fearful employees limits the effectiveness of concepts like empowerment. However, as in many other middle income developing countries, the next stage in the development of Turkey's companies will be the rise of the professional manager working in a quoted company where ownership is more diffuse.

This trend is already beginning to make itself felt, particularly as family companies begin facing succession problems, inadequate capital structures and rising competition. Nearly all successful Turkish companies are cash-rich and debt free. This is because they tend to underinvest and because they are highly profitable, since protection has limited competition.

Robust financial health will allow companies to raise considerable amounts of debt and equity capital once investment conditions improve. Owners are beginning to accept ceding control. Koç, which controls Tofaş, Turkey's largest car maker, is committed to reducing its stake by selling shares to raise capital for investment in the company.

At the same time, the government's ability to control business by distributing contracts or manipulating regulations is also receding. Executives felt that the drift and disorganisation in Ankara that has allowed the economy to spin out of control is almost a blessing in disguise. Mr Sedat Aloglu, head of the IKV, an economic development foundation, says the government "does a lot of stupid things. But it does not affect me very much. Control is definitely decreasing. In that respect Turkey is closer to a market economy than ever before."

This is not an unmixed blessing. Ankara, the administrative capital, and Istanbul the business centre, have moved apart.

"Business has very, very little influence in Ankara. Tüsiad [the employers' association] is very good at making newspaper headlines but in lobbying and direct contacts with politicians it is very weak," says one executive. "Politicians only listen to business if they have financial or electoral power."

This may sound disingenuous, since few companies have flourished without greasing palms in Ankara. Yet the inability to communicate the new business agenda to politicians is worrying.

Business demands for sound economic policy or action on implementing economic and regulatory reforms demanded by the EU find little echo in parliament.

Mr Eczacibaşi says "piracy is a big problem. If you want to run a plant at world standards, there are costs associated with staff, labs, overheads. If you have to compete with kitchen operations it makes your position very difficult."

Formerly cautious business leaders make no secret of their contempt for Mrs Çiller's increasingly populist government. Complaints at the government's incompetence, corruption, indecision and anti-business rhetoric are no longer unusual. Business leaders have already warned they will not submit to more swingeing emergency taxes.

Recently Mr Sakip Sabanci, who heads the Sabanci group, one of Turkey's biggest conglomerates, bitterly denounced the "plunderers of Ankara" in a speech to a business association.

He then had the audacity to summon Mrs Çiller to the group's June meeting: "Çiller has to come and listen to us." If she does appear, she may witness yet more flexing of the increasingly powerful muscles of big business.

Corniche of Izmir: Turkey has only 50 cars per 1,000 people, one-tenth of Europe's ratio *Picture: Terry Kirk*

AUTOMOBILE INDUSTRY

Foreign cash is pouring in

It is odd that a car market as battered as Turkey's should be attracting a wave of foreign investment. Last year, sales dropped 47 per cent. The industry is about to lose its 28 per cent import protection. Sales are not expected to exceed 500,000 units a year before 2000.

Yet Hyundai, Mazda and Honda are all looking for production sites in Turkey. Toyota has already arrived. It began producing 20,000 cars a year at a new plant near Istanbul late last year.

Renault and Fiat, which set up in Turkey as highly protected joint ventures 30 years ago, are investing heavily even though profits have slumped and their factories are working on short time.

There are several reasons for the investment rush. First, Turkey is a low-cost base with duty-free access to western Europe. Second, the domestic market is very immature.

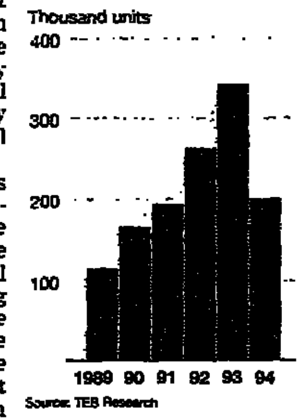
Above all, the prospect of customs union with the European Union in 1996 has shaken local companies into action. Renault and Fiat trying to shake off a reputation for making expensive, badly-made and obsolete cars for a captive market. Still, the received wisdom is that customs union will hit them hard as they face full international competition.

Mr Pierre Poupel, general director of OYAK-Renault, thinks the threat of customs union is exaggerated. He argues that European imports' price and quality advantages will be offset by higher local taxes.

He concedes that "competition will be tougher. The key issues will be marketing issues. The rules of the game will come closer to what is going on in Europe. Demand will move to what we know in Europe."

Car production

Thousand units



Source: TEB Research

Renault has invested $180m in the last two years in upgrading production and developing new products. Renault claims productivity on its newest models in its Turkish plants is similar to factories in France and Spain. Mr Jan Nahum, general manager of Fiat's Tofaş joint venture with the Koç group, says he is investing $800m in 1994-99 in new manufacturing systems and models.

Productivity has improved by a third since 1992. Tofaş has become part of Fiat's international network: all Fiat Tempras sold in Europe are made in Turkey.

Turkey itself, though, is the great prize. Turkey has only 50 cars per 1,000 people, one-tenth of Europe's ratio. Furthermore, this is much lower than other countries with similar income levels – since about half Turkey's economy goes unregistered. Assuming continued population growth of about 2 per cent a year, the Turkish car market should double to 500,000-650,000 units a year by 2000.

However, demand is sensitive to upsets in real income, interest rates and consumer confidence. Mr Nahum says "as long as the Turkish economy is not sound, automotive companies cannot be sound".

Car companies also want the government to lower its very high car taxes to European levels of 15-17 per cent. Currently about 45 per cent of car retail prices are made up of taxes.

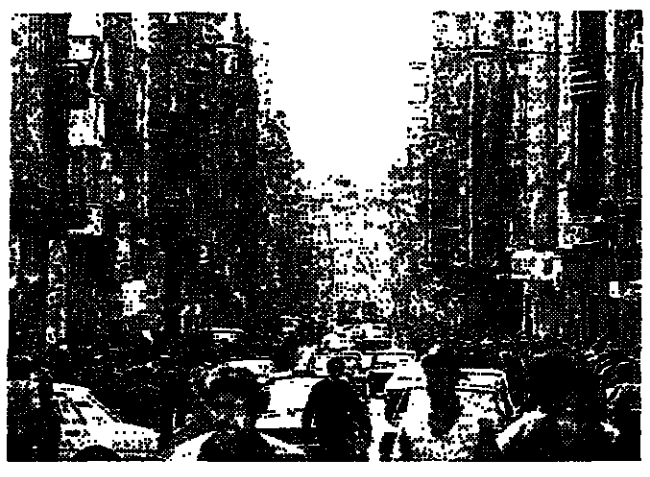
The arrival of the Japanese will revolutionise the industry. Renault and Tofaş are already complaining that Toyota is buying market share with unfair price cutting.

Naturally, Toyota, in alliance with the Sabanci group, denies it is playing dirty – it is just playing hard. And unlike Fiat and Renault, Toyota's access to EU markets will be limited by Brussels' "consensus" with Japan restricting car imports.

Still, Messrs Poupel and Nahum may be right about one thing: there is not room for eight carmakers in a market as small as Turkey's. The question is, who will survive?

John Barham

Yaman Törüner's main aim is to reduce inflation to 40 per cent by the end of this year, but prices rose by 25 per cent in the first four months of 1995. Below: Istanbul's crowded central shopping area



Profile: Yaman Törüner, central bank governor

The fan mail is rather thin

Yaman Törüner, Turkey's central bank governor, is a man the financial industry loves to hate, *writes John Barham*.

Global Finance magazine chose him as the world's worst central banker last year for his role in the 1994 currency collapse.

Mrs Çiller appointed Mr Törüner, a stolid 46-year-old career bureaucrat and former stock exchange chairman, in February 1994 as the deepest financial crisis in Turkey's recent history gathered pace.

But he insists the central bank's enhanced powers and greater independence now make him a guarantor of stability and Turkey's number one inflation fighter. Only the central bank can print money, a new privilege recently wrested from the government. Furthermore, he cannot be removed until he has served his five year term.

So far, few dispute his determination to keep a firm hand on the printing press. However, if conditions deteriorate, his tight money policies will surely lead to confrontation with Mrs Çiller, known for her insistence on low interest rates.

He says: "I am 100 per cent sure that we will have foreign exchange and monetary stability. I can't promise interest rate stability. That depends on the treasury." Interest rates are already at a nominal 104 per cent – about 20 per cent in real terms – and Mr Törüner says they could easily rise further still unless the government gets serious about controlling its budget deficit. He says interest rates are simply not his problem; they are determined by the supply and demand for money. "And who is the borrower?" he asks. "It is the treasury."

He has three targets: maintaining a stable exchange rate and maintaining a stable money supply. He will only allow the battered Turkish lira (currently worth about 44,000 to the dollar) to depreciate in line with inflation. Money supply will only expand to meet International Monetary Fund targets.

Few dispute Törüner's determination to keep money supply under control and he cannot be removed until the end of his five-year term

His main objective is lowering inflation. He is aiming to reduce it to 40 per cent by the end of the year. This will not be easy – last year's consumer inflation was 126 per cent and prices between have already risen 25 per cent in the first four months of this year.

Mr Törüner says unwaveringly "we will keep the monetary aggregates to their targeted levels to keep to the 40 per cent target."

Yet financial markets in Istanbul, which have little but contempt for the bureaucrats of Ankara, expect inflation will be 75-85 per cent. If they are right, Mr Törüner's rigid adherence to targets would be almost suicidal. The lira would become hugely overvalued and interest rates would be pushed up to Latin American levels, killing off the incipient recovery.

Mr Törüner shrugs his shoulders. He insists he will pursue his targets come what may.

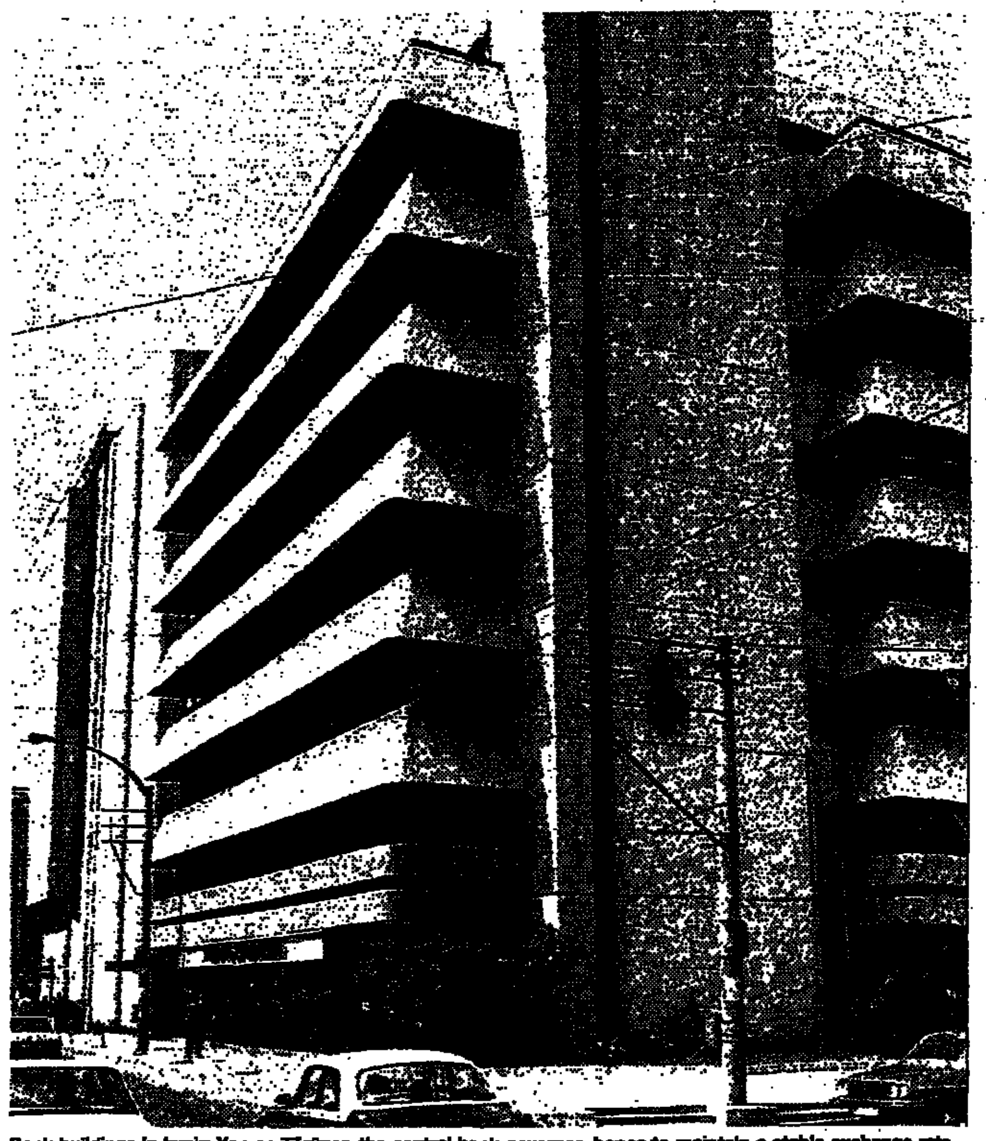
More to the point, he points out that he has the firepower to defend the lira: "central bank reserves have tripled in a year. We have enough reserves to keep stability." Central bank reserves hit a record $12.81bn early in May, although they have dipped a little since then.

However, absence of structural reform or government spending controls indicates there is more instability building up in the system than Mr Törüner can control.

There are more than a few cassandras predicting a serious crunch in the autumn. Mr Törüner says coolly: "I don't think that will happen. In this country everyone expects a large or small crisis every month but nothing has happened for 14 months."

The biggest risk is that he would cave in to political pressure for an easing of policy if Mrs Çiller calls early elections in the autumn.

He denies he is under government pressure to be less strict – "Mrs Çiller has never telephoned me [asking for relaxation]. She is the prime minister, not the man at the central bank. We don't have any problems about this".



Bank buildings in Izmir: Yaman Törüner, the central bank governor, hopes to maintain a stable exchange rate and a stable money supply. He will only allow the battered Turkish lira to depreciate in line with inflation.

Istanbul's youthful stock exchange is expanding rapidly

Free-wheeling trade zone

Istanbul's stock market is only 10 years old and still very much an emerging market, with all the volatility and sharp practices this implies. But it does not lack ambition.

The exchange's authorities are attempting to build Istanbul into a regional financial capital by developing some innovative new markets.

For instance, the exchange is setting up an international stock market, with a tax free, offshore status, where trades will be executed in dollars. It is aimed at attracting firms from the Middle East, the former Soviet Union and Eastern European countries.

Istanbul offers less stringent listing requirements than established markets. It also offer companies and traders greater liquidity than in their home markets. Istanbul's nearest regional rivals are in Tel Aviv, Athens and Johannesburg.

The stock exchange is also establishing a wholesale market, where larger block trades can be executed without disrupting the often very narrow main market. Again, this is intended to strengthen Istanbul's attractiveness to leading players, particularly fund managers and investment banks.

In May, the exchange moved out of its cramped buildings on a quayside in central Istanbul and into a spacious new building, renovated at a cost of $47.2m.

As well as providing amenities such as an art gallery and auditorium, the exchange has increased capacity considerably, which traders hope will allow turnover to continue increasing. Dealers work from terminals in the building, and the new premises have 750 terminals compared with 492 in the old building.

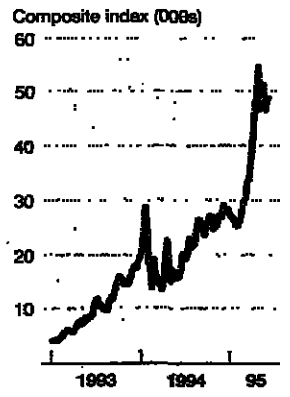
Istanbul is now one of Europe's larger second-tier bourses. Average daily trading hit a record $563m in April, although turnover has since slowed down. Market capitalisation now stands at $29.93bn, 38 per cent more than at the end of last year.

This performance makes Istanbul an important market in its own right to emerging market players. "Nobody could have predicted that the market would increase 75 per cent this year. Sure, it has come down a fifth in May, but nobody can say where it will go from here. This is one unpredictable beast," said a US equity analyst tracking the Turkish market.

Analysts give any number of reasons for this year's growth spurt. They include the European Union's preliminary approval in March to customs union with Turkey and the army's incursion into northern Iraq – seen as a boost for Mrs Çiller's popularity. The treasury's success in stretching the maturity of its bonds to one year from three months was another positive signal.

Istanbul SE

Composite index (000s)



Source: Datastream

Probably most important was that investors over-reacted last year when they drove prices down by half, leaving plenty of room for this year's upward correction.

Traders may be unsure where the market is now heading, mainly because the political signals from Ankara are confusing. Still, there is still plenty of volatility to tempt investors with a penchant for speculation. For instance, shares in three cement companies – Konya Çimento, Çimsa and Akçimento – gained as much as 70 per cent in a few days in May.

Some typically Turkish factors boosted these stocks: rumours of early elections helped construction stocks, because politicians habitually try to bribe voters by starting government-funded construction projects in their constituencies ahead of the polls.

Stock splits also influence prices positively, because they improve the very tight liquidity of these three companies' shares. Moreover, splits are popular with retail players, many of whom believe they are getting "free" shares.

Professionals say it is still not too difficult to find value in the market. Recommended stocks at the top end of the price range include Şişe Cam, a glassmaker with a prospective 1995 price/earnings multiple of 21, or Aygaz the liquefied petroleum gas company, with a 1995 p/e of 12.8.

Bargain stocks include Demirbank, a strong medium-sized wholesale bank, trading on a 1995 prospective p/e of just 2.9, and Tofaş, the car maker, with a p/e of 4.1 (its shares were trading at a 50 per cent discount to the market in May).

However, the market's nervy mood reflects the uncertainty pervading the wider economy. The absence of structural reform indicates further economic problems ahead. The market remains particularly wary of upsets in the bond market.

The government's difficulties in pushing reform legislation through parliament could jeopardise customs union, expectations of which have helped the market this year. Now analysts are beginning to re-examine stocks most threatened by customs union – such as cars or white goods – as a possible play on rejection or postponement of the accord.

John Barham

Pavement speculators use mobile phones to contact the floor of the stock exchange. Istanbul is now one of Europe's larger second-tier bourses – average daily trading hit a record of $563m in April

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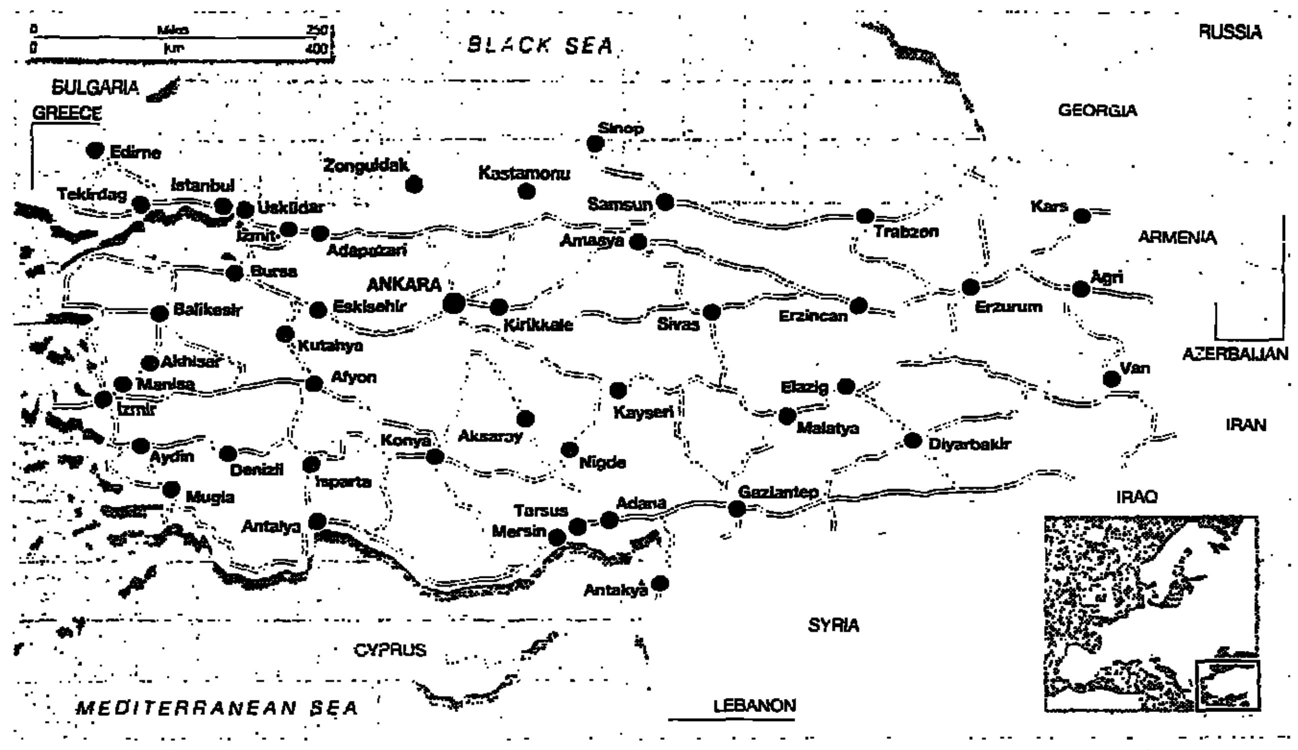
The busy Kizilay district of Ankara, the capital of Turkey

Picture Terry Kirk



Polls show that two-thirds of Turks support closer ties with Europe and hope, ultimately, to gain full membership of the European Union

BUSINESS VISITORS' GUIDE

It pays to plan ahead

Once business is over, there is no excuse for not having a great time in Istanbul, writes Hugh Pope

The first-time visitor to Istanbul may flinch on the drive in from Istanbul airport. The highway is clogged with anarchic traffic and surrounded by a grey city apparently drowning in a polluted sea of half-built concrete tenements.

Settled in one of many fine new hotels, the visitor will start to feel better, discovering the minaret-studded skyline along the Bosphorus waterway, the warm hospitality and the many luxuries of life in this energetic city of 7.7m people.

However, even veterans must plan appointments carefully in the business districts scattered in a patchwork pattern across the city.

Remember too that taxis may be cheap, plentiful and, outside the tourist areas, honest to a fault, but their drivers rarely speak much English and may be as new to the city as oneself. So buy a road map and allow at least half an hour's transit between meetings.

Many other things can be quickly organised. Changing foreign currency is easy at most times of the day and night, and credit cards can be used to withdraw money from automatic cash dispensers at banks. But, as in making arrangements for anything in Turkey, assume nothing, plan well ahead, spell out everything – and then check again that it has been understood.

Once business is over, there is no excuse for not having a great time. Europe's best-kept secrets must be the night-life of Istanbul. A baby boom of Young Turks has hit spending age and they are determined to stay up until dawn to prove it, clogging up coast roads along the Bosphorus into the small hours.

To keep track of the bars, clubs and eateries that open and close like fire-flies all over town, buy the excellent English-language bi-monthly Istanbul Guide.

Formal business meals may still be safest to arrange in the leading hotels, but there are more adventurous alternatives. For the best fish, take a the launch from Rumelihisar across the Bosphorus to Korfez, with its stunning view of ships passing down the seaway. The more moderately-priced Deniz in Kirecburnu also serves a fabulous sea bass baked in salt that comes flaming to your table.

A good trip in fine weather is to take a Bosphorus ferry from the south end of the Galata Bridge on the Golden Horn at 10.30 and 13.30 each day, the earlier boat allowing a stop long enough for a languid seaside lunch far up the Bosphorus at Anadolukavagi. Smaller fish restaurants cluster by the sea in Ortakoy, a student's favourite.

On Sunday, when the superb Grand Bazaar is closed, one can visit the flea market. Or one can watch Turkey's wealthy set mingle at the fine Home Store cafe in the grand new mall at Akmerkez in Etiler, open daily 10-10 and Turkey's best shopping showcase.

Good kebab joints are everywhere. My favourite is Hacidan, a one-time society joint half-underground on a busy corner in Levent. It is advisable to phone them for directions. Hacidan is the kind of restaurant known as "ocakbasi" or "at the head of the hearth", since, in the fashion of Japanese sushi bars, the diner can cozy up to a long brazier of glowing charcoal.

Many big hotels offer classical Turkish restaurants, of which the grandest is at the Ciragan Palace-Kempinski, set in a marble palace by the water. Also good is the Asithane in the Kariye Hotel in Edirnekapi, a convenient stop after seeing the city's best Byzantine mosaics in the nearby Kariye Museum.

The unusual Daruzziyafeh restaurant, near the Suleymaniyeh mosque, serves classical Ottoman food, right down to serving sherbets instead of alcohol. Pandelli's, above the north gate in the Spice Bazaar in Eminonu, has a medieval ambience of thick walls and Iznik tiles. And on Istiklal Street near Taksim, Haci Baba has a pleasant balcony at the back and offers fine and reasonably priced Turkish fare.

Wealthy Turks, however, prefer to spend their summer evenings in open-air restaurants further up the Bosphorus. Favourite venues with fashionable discotheques include the brash Pasha Beach in Ortakoy and the lovely SamdanSa, where tables are set between trees on a wooded hill near Yenikoy.

Club 29 in Ulus has a spectacular view over a bend in the Bosphorus strait, while the Osteria da Mario in Etiler has one of the more delicious Italian menus and coziest atmospheres in Istanbul.

While Istanbul is generally safer than most big cities, avoid wandering in the area around the consulates in Taksim to Beyoglu. Muggers are rife, the ladies of the night tend to be men and many a fun-seeking tourist has been presented with a $1,000 bill and a knife in his throat after an innocent beer in a dark-looking dive.

In any case, remember to go easy on the hors d'oeuvres – they are often only the beginning of a long evening.

If necessary, ask the price of the fish before you order it. Eat your favourite morsels first, because hyper-active Turkish waiters have a fetish for removing half-finished plates. They usually expect a tip of 10 per cent, whether or not it seems to have been included in the bill.

Above all, sit back and enjoy the fuss. The Turks take their food seriously and one is rarely disappointed. Credit cards, dollars and Deutsche Marks are widely accepted, and wherever you go, you'll end up paying less than half what you would in Europe.

For key facts on Turkey: see back page of this survey

Summer crowds enjoy the palm-fringed Izmir International Fairgrounds

Picture Terry Kirk

Vendors sell fish beside the Bosphorus waterway with the minaret-studded skyline of Istanbul in the background. For the best fish restaurants, take the launch from Rumelihisar across the Bosphorus to Korfez. *Picture: Richard Wayman*

A Kurdish traveller: the focus for foreign indignation is the treatment of the Kurdish minority, who are estimated to account for between 15 and 30 per cent of the population. Many Turkish politicians fear that recognising Kurdish cultural rights would threaten the state *Picture: Richard Wayman*

■ Currency/exchange rate

Currency: Turkish lira (TL).
Exchange rate at June 5, 1995: £1=TL68,532.3; $1=TL43,075.0; DM1=TL30,636.6; Y100=51,200.5

The government devalues the lira more or less in line with inflation. Import of foreign currency is unrestricted. Import and export of Turkish currency is limited to the equivalent of $5,000.
Exchange slips for conversion of foreign currency into Turkish lira should be kept, to be shown when reconverting lira and as proof of legally exchanged currency when taking souvenirs out of Turkey.

■ Main cities

Population at 1990 census

Ankara (capital)	2,559,471
Istanbul	7,756,338
Izmir	2,805,622
Adana	1,066,544
Bursa	1,016,760
Gaziantep	730,435
Konya	584,785
Mersin	422,357
Kayseri	421,362
Eskişerhir	413,082

■ Population and Area

Area (sq miles)	300,948

Population (official estimates at mid-year)

1989	54,890,000
1990	56,098,000
1991	57,326,000
1993	59,311,000
1994	61,180,000

■ Business hours

Government offices: 0830-1230 and 1330-1730, Monday to Friday.
Business offices: 0900-1230 and 1330-1800, Monday to Friday.
Banks: 0830-1200 and 1330-1700, Monday to Friday.
Shops: 0900-1300 and 1400-1900, Monday to Saturday.
One large shopping centre, Atakoy Galleria, located on the coast road to the Istanbul airport, is open until 2200 every day. Many flower shops stay open later than 1900. Pharmacies display the location of one on late duty.

■ Languages

Turkish, 90 per cent; Kurdish, 7 per cent; other (Arabic) 3 per cent. Most business people speak English, German or French.

■ Religion/Ethnic mix

Religions: Moslem 99 per cent, with the following minorities: Christian Orthodox, Armenian Apostolic, Roman Catholic, Protestant and Judaism. Ethnic make-up: Mainly ethnic Turkish, with a large Kurdish minority, and small numbers of Armenians, Greeks and Jews.

■ Government organisations

Prime Minister's office: Başbakanlik, Ankara. *Tel (312) 230 8720.*
Ministry of Communications: 91 Sok No 5, Emek, Ankara, *Tel (312) 212 6730.*
Ministry of Foreign Affairs: Dişişleri Bakanlığı, Yeni Hizmet Binası, 06520 Balgat, Ankara. *Tel (312) 287 2555.*
Ministry of Finance and Customs: Maliye ve Gümrük Bakanlığı, Dikmen Cad., Ankara. *Tel (312) 419 1200.*
State Planning Organisation: Necatibey Cad 108 Ankara. *Tel (312) 417 6440.*
Turkish International Cooperation Agency: Kizilirmak Cad 31, Kocatepe, Ankara. *Tel (312) 417 2790.*
Undersecretariat for Treasury and Foreign Trade: Eskişehir Yolu Inönü Bul Emek, Ankara. *Tel (312) 212 8800.*
Ministry of Trade and Industry: Sanayi ve Ticaret Bakanlığı, Tandoğan, Ankara. *Tel (312) 231 7280.*
Tourism Ministry: Ismet Inönü Bul, 5 Balgat, Ankara. *Tel: (312) 212 8300.*
Central Bank of Turkey: Istiklal Cad 10, Ulus, Ankara. *Tel (312) 312 6052.*

■ Climate

Coastal regions have a Mediterranean climate, with mild, moist winters and hot, dry summers. The interior plateau has low and irregular rainfall, cold and snowy winters and hot, almost rainless summers.
Ankara: January 32.5°F (0.3°°°° °C); July 73°F (23°C). Annual rainfall 14.7 inches (367mm).
Istanbul: January 41°F (5°C); July 73°F (23°C). Annual rainfall 28.9 inches (723mm).
Izmir: January 46°F (8°C); July 81°F (27°°C). Annual rainfall 28 inches (700mm).

■ Entry/visa requirements

Full passport required for entry. Visas required by all except nationals of some European countries and a few others. Citizens of the UK and Ireland require visas, available only at the port of entry for £5.

■ Public holidays

January 1 *(New Year's Day)*, April 23 *(National Sovereignty and Children's Day)*, May 19 *(Commemoration of Atatürk, and Youth and Sports Day)*, *three days for Ramadan and four days for Kurban depending on Moslem calendar*, August 30 *(Victory Day)*, October 28 *(partial) and* October 29 *(Republic Day)*.

Sources: Europa World Yearbook, 1994; EIU country profile, 1994; KCDW/Kaleidoscope; Walden Country Reports, January 1995; World Hotel Directory; Statesman's Year Book 1994-95; State Institute of Statistics.

Family group: of the 61m people in Turkey, 7.7m live in Istanbul, the largest city *Picture: Richard Wayman*

Hard choices for a nation at the door of Europe

Continued from page 1

rifts in a divided society.

Crammed into slums lacking basic amenities, rural migrants must assimilate, unaided, into urban life. The stress of urbanisation is strengthening the appeal of Refah, the militant Islamist party, partly because it is almost the only provider of a social safety net for these people.

Equally, continued migration – one third of the population lives in the rural areas – may give Turkish society a further impetus towards a modern, western-oriented urban culture. Rapid growth of private TV channels and radio stations is accelerating this trend, churning out pop music, video clips, US sitcoms and commercials for consumer goods.

Individuals, whether professors or street vendors, are feeling freer to speak their minds. Human rights violations, corruption and the Kurdish issue are discussed openly now, albeit within the restrictions of security laws. Business leaders feel less inhibition in lashing out against corruption or populist politicians, where once they feared losing a valued privilege or being excluded from a government contract.

Inevitably, Turkey is becoming a less equal society. Although nobody can be sure – there are no reliable statistics – the gap between rich and poor appears to be widening rapidly. While Turks are famous for their stoicism, social cohesion is threatened.

Half the population, which is growing at just under 2 per cent a year, is under 29. Spending on education is one-quarter less than the OECD average. High unemployment is worsening further because job creation lags population growth by a wide margin.

Individuals, whether they be professors or street vendors, are feeling freer to speak their minds

Turkey's big city slums, especially in Istanbul, are simmering with anger and frustration. It does not take much for these communities to explode into violence. In March, a gun attack by unidentified assailants sparked off three days of rioting in an Istanbul slum of minority Shia Moslems, in which at least 28 people died.

For the middle classes, and increasingly from Europe's perspective, the spectre of Islamic fundamentalism is perhaps the most alarming development. Refah is now one of the most popular parties, thanks more to protest votes than support for an Islamic state.

Many fear that a Refah government, backed by sympathisers who are systematically infiltrating the bureaucracy, would *dismantle* the secular state and cut Turkey's links with the west. Nightmare scenarios of "another Algeria" or "another Iran" proliferate.

These concerns may be exaggerated. To prosper electorally, Refah must moderate its radicalism to occupy the middle ground. However, the danger is that public opinion may itself become more radical if the government fails to deliver growth, alleviating social deprivation by allowing investment and employment to recover.

A surfeit of inadequate leaders is perhaps Turkey's greatest handicap. Critics claim that Mrs Çiller is an insecure, indecisive politician who lacks the vision and determination of the late President Turgut Ozal, who for all his faults, rapidly modernised Turkey in the 1980s.

Turkey must soon choose between a high road of growth and stability by developing its relationship with Europe and the west, or whether to keep struggling along the low road it has chosen to follow in recent years of instability and hardship, with all the attendant political risks. Mrs Çiller's record as prime minister leaves little room for optimism.